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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	Docket No. SW-01428A-09-0103
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	Docket No. W-01427A-09-0104

RUCO'S NOTICE OF FILING DIRECT TESTIMONY

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of William A. Rigsby, CRRA, Matthew Rowell, and Sonn S. Rowell, CPA, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 4th day of November, 2009.

Michelle L. Wood
Counsel

AN ORIGINAL AND FIFTEEN COPIES
of the foregoing filed this 4th day
of November, 2009 with:

Docket Control
Arizona Corporation Commission
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Phoenix, Arizona 85007

COPIES of the foregoing hand delivered/
mailed this 4th day of November, 2009 to:

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LITCHFIELD PARK SERVICE COMPANY

DOCKET NO. SW-01428A-09-0103

DOCKET NO. W-01427A-09-0104

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 4, 2009

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. I have been awarded the professional designation, Certified Rate of Return Analyst ("CRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix I, which is attached to my direct testimony on the cost of capital issues in the case, further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on RUCO's analysis of Litchfield Park Service Company's ("LPSCO" or the "Company") application for a permanent rate increase ("Application) for the Company's water and wastewater operations in Maricopa County. LPSCO filed the Application with the Arizona Corporation Commission ("ACC" or "Commission") on March 6, 2009. The Company has chosen the operating period ended September 30, 2008 for the test year ("Test Year") in this proceeding.

Q. Please explain your role in RUCO's analysis of LPSCO's Application.

A. I reviewed LPSCO's Application and analyzed the Company's requested level of required revenue as it relates to excess capacity issues and have worked in cooperation with RUCO consultants Matthew J. Rowell and Sonn S. Rowell of Desert Analytical Services PLLC on the remaining required revenue issues. I have also filed, under separate cover, direct testimony on the cost of capital issues associated with the case.

Q. What issues will you address in your testimony?

A. I will address excess capacity issues associated with LPSCO's Palm Valley Water Reclamation Facility ("PVWRF").

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your direct testimony is organized.

A. My direct testimony is organized into four sections. First, the introduction I have just presented and second, a summary of my testimony that I am about to give. Third, I will present the findings of RUCO's audit in regards to excess capacity. Fourth, I will discuss RUCO's recommendations on this specific issue.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of RUCO's analysis of LPSCO, RUCO is making the following recommendations:

Expansion Design Costs – RUCO is recommending that the Commission deny the inclusion of $36,500 in rate base for design costs associated the expansion of the PVWRF.

EXCESS CAPACITY FINDINGS

Q. Has RUCO reviewed the September 30, 2008 Aquifer Protection Permit ("APP") for the PVWRF issued by ADEQ?

A. Yes. The APP authorizes the PVWRF to operate with a capacity of 4.1 mgd (based on maximum average monthly flow.) Section 2.2.1 of the

APP also indicates that an expansion of the PVWRF to 8.2 mgd has been approved as designed.

Q. Is the Company seeking to recover costs associated with the design of the expansion of the PVWRF to an 8.2 mgd capacity?

A. Yes. Section 2.2.1 of the APP states that "A WRF[1] expansion to 8.2 mgd ***was designed*** and shall be constructed as per the design report prepared by Pacific Advanced Civil Engineers, Inc. dated August 2004." (**emphasis added**) Invoices from Pacific Advanced Civil Engineers, Inc. ("PACE") are included in the back-up provided by LPSCO for their 2004 and 2006 plant additions. So it is clear that the Company is attempting to add the costs associated with designing the plant expansion to rate base.

Q. Is it appropriate to add these design costs to rate base?

A. No. This design work does not benefit current customers and is not necessary to serve current customers. Design work on the plant expansion serves only to benefit potential future customers. Therefore, these costs should be excluded from rate base.

...

[1] Water Reclamation Facility

Q. How much did the Company spend on the design of the PVWRF expansion?

A. The invoices relating to the plant expansion indicate that PACE charged LPSCO $36,500 for its work on the design report. In its 6th set of data requests RUCO requested the Company disclose the total amount spent on the design work and any construction work associated therewith for the expansion of PVWRF from 4.1 mgd to 8.2 mgd. The Company objected to the relevant questions in that data request and has not provided the total amount spent on the design or construction work. In its 6th set of data request, RUCO also requested copies of any and all engineering reports associated with the expansion from 4.1mgd to 8.2 mgd. In response, the Company indicated that the engineering reports, including the PACE report dated August 2004 were not in their records and thus could not be provided to RUCO.

Q. Please summarize RUCO's rationale for the disallowance of the design costs discussed in your testimony.

A. At a minimum, RUCO believes that the $36,500 paid for the August 2004 PACE design report should be disallowed. Because the August 2004 report relates to the expansion of the PVWRF and the Company cannot find the design report, it is clearly not benefitting current ratepayers. RUCO also believes that any other additional sums spent on expansion of the plant from 4.1 mgd to 8.2 mgd should also be disallowed.

RUCO'S RECOMMENDATIONS

Q. What does RUCO recommend regarding the aforementioned design work costs associated with the PVWRF expansion 4.1mgd to 8.2 mgd?

A. RUCO is recommending that the Commission deny recovery of the costs described above. RUCO believes that current customers should not be burdened with the expense of designing plant expansions, which will only benefit future customers or 100% of the risk of future development. Because LPSCO has objected to the relevant parts of our 6th set of data requests we cannot be certain what portion of the Company's plant additions are associated with the expansion design or construction work. At a minimum, we believe this is an issue that the Commission should decide. The issue should not be decided by default because LPSCO has not provided the necessary information. RUCO is therefore recommending that the Commission deny rate base treatment for the costs associated with LPSCO's expenditure on the design or construction of the expansion of the PVWRF from 4.1 mgd to 8.2 mgd.

Q. Has RUCO made the appropriate accounting adjustments to remove the aforementioned dollar amounts from rate base?

A. Yes. As to those costs, which are known, I have made an adjustment in the direct testimony schedules of RUCO witness Sonn S. Rowell, removing the $36,500 paid for the August 2004 PACE engineering design report. To the extent other design or construction costs are discovered, if any, RUCO will address and adjust for those dollar amounts in surrebuttal.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of any of the witness for LPSCO constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your direct testimony on LPSCO?

A. Yes, it does.

LITCHFIELD PARK SERVICE COMPANY

DOCKET NO. SW-01428A-09-0103

DOCKET NO. W-01427A-09-0104

DIRECT TESTIMONY
ON COST OF CAPITAL

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 4, 2009

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Q. Briefly describe LPSCO.

A. LPSCO[1] is a wholly owned subsidiary of Algonquin Water Resources of America, which is a wholly owned subsidiary of the Algonquin Power Income Fund ("Algonquin Fund" or "Parent"), a mutual fund, or trust, which is listed on the Toronto Stock Exchange (ticker symbol APF.UN). The

[1] Based on documents provided by the Company, LPSCO officially changed its name to Liberty Water on April 27, 2009. According to the Company response to ACC Staff 's data request JMM 7.3, dated October 23, 2009, the name change was actually the registration of Litchfield Park Service Company dba Liberty Water. The holding company for LPSCO, Algonquin Water Resources of America, Inc., did actually change its name to Liberty Water Co. There was no sale of stock or assets involved. In order to maintain consistency with the Company's Application, RUCO will continue to refer to the Company as LPSCO and its holding company and parent under the Algonquin monicker.

Company serves customers in Litchfield Park, Avondale and parts of Glendale on the west side of the Phoenix metro area. The Algonquin Fund also owns and operates six other ACC regulated utilities: Black Mountain Sewer Corporation, serving the Town of Carefree north of Scottsdale; Gold Canyon Sewer Company, located east of Apache Junction; Rio Rico Utilities, Inc., located just north of Nogales on the border between Arizona and Mexico; Bella Vista Water Company, Northern Sunrise Water Company and Southern Sunrise Water Company located in or near Sierra Vista. The Algonquin Fund also owns Algonquin Water Services, which directly oversees the daily operations of the aforementioned Arizona public service companies.

Q. What is a mutual fund?

A. A mutual fund is a type of investment vehicle that generally provides investors with the opportunity to place their funds into a professionally managed portfolio of financial instruments such as stocks or bonds. In the case of a stock mutual fund, the fund's manager will buy and sell on the basis of how well a stock meets the fund's investment criteria, such as providing a specific level of dividend income and/or achieving projected levels of capital appreciation. Unlike the price of a stock or bond, the value of a mutual fund is expressed as its net asset value ("NAV"). Fund managers generally realize a profit from management fees, which are normally collected as a fixed percentage, typically between 0.5 percent and 2.00 percent a year, of the fund's NAV. Management fees are normally deducted from shareholder's assets on an annual basis. Closed-ended funds have a fixed number of shares that are bought and sold on securities exchanges in the same manner as individual stocks and bonds. Open-ended funds, on the other hand, offer new shares and redeem existing shares on a continual basis.

Q. How is the Algonquin Fund structured?

A. The Algonquin Fund is an open-ended fund with an investment portfolio comprised of utilities involved in the production of electricity and the provision of water and wastewater services. These individual utilities make up the Algonquin Fund's Hydroelectric, Cogeneration, Alternative Fuels and Infrastructure Divisions. Instead of a collection of stocks or bonds, the fund is comprised of utilities that are bought, held and sold in the hope of achieving desired returns on investment. In this respect, the Algonquin fund is no different than a utility holding company whose shares are publicly traded in the financial markets. Shares of the funds are referred to as units and shareholders are referred to as unitholders. As I explained above, the Algonquin Fund's managers derive their income from management fees.

...

Q. Is this form of ownership common for utilities operating in Arizona?

A. No, most investor owned utilities operating in Arizona are either closely held corporate entities, are owned by a utility holding company or, as in the case of many water and wastewater utilities, are owned by a firm that is engaged in land development.

Q. Please explain your role in RUCO's analysis of LPSCO's Application.

A. I reviewed LPSCO's Application and performed a cost of capital analysis to determine a fair rate of return on the Company's invested capital. In addition to my recommended hypothetical capital structure, my direct testimony will present my recommended costs of common equity (LPSCO has no preferred stock) and my recommended cost of hypothetical debt. The recommendations contained in this testimony are based on information obtained from Company responses to data requests, the Company's Application and from market-based research that I conducted during my analysis.

Q. Were you also responsible for conducting an analysis on the Company's proposed revenue level, rate base and rate design?

A. I have filed, under separate cover, direct testimony on the excess capacity issues associated LPSCO's wastewater facilities. RUCO consultants Matthew J. Rowell and Sonn S. Rowell of Desert Mountain Analytical

Services PLLC will address those aspects of the case except for excess capacity issues.

Q. What areas will you address in your testimony?

A. I will address the cost of capital issues associated with the case.

Q. Please identify the exhibits that you are sponsoring.

A. I am sponsoring Schedules WAR-1 through WAR-9.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into six sections. First, the introduction I have just presented and second, a summary of my testimony that I am about to give. Third, I will present the findings of my cost of equity capital analysis, which utilized both the discounted cash flow ("DCF") method, and the capital asset pricing model ("CAPM"). These are the two methods that RUCO and ACC Staff have consistently used for calculating the cost of equity capital in rate case proceedings in the past, and are the methodologies that the ACC has given the most weight to in setting allowed rates of returns for utilities that operate in the Arizona jurisdiction. In this third section I will also provide a brief overview of the current economic climate within which LPSCO is operating. Fourth, I will discuss my recommended capital structure, my recommended cost of long-term debt and my recommended weighted average cost of capital. Sixth, I will comment on LPSCO's cost of capital testimony. Schedules WAR-1 through WAR-9 will provide support for my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis of LPSCO, I am making the following recommendations:

Cost of Equity Capital – I am recommending an 8.01 percent cost of equity capital. This 8.01 percent figure is based on the results that I obtained in my cost of equity analysis, which employed both the DCF and CAPM methodologies. My 8.01 percent cost of equity capital is 449 basis points lower than the 12.50 percent cost of equity capital being proposed by the Company.

Capital Structure – I am recommending that the Commission adopt the Company-proposed capital structure which is comprised of 17.83 percent long-term debt and 82.17 percent common equity. My recommended capital structure takes into consideration the Company's actual third party debt which eliminated the need for a hypothetical capital structure in this particular case.

Cost of Long-Term Debt – I am recommending that the Commission adopt the Company-proposed cost of long-term debt of 6.39 percent, which is the weighted average cost of LPSCO's two industrial development authority bond issuances which were used to finance utility plant in service.

Weighted Average Cost of Capital – Based on the results of my recommended capital structure, I am recommending a 7.72 percent cost of capital for LPSCO, which is the weighted cost of my recommended costs of long-term debt and common equity. My 8.01 percent weighted average cost of capital is 369 basis points lower than the Company-proposed 11.41 percent weighted cost of capital.

Q. Why do you believe that your recommended 7.72 percent weighted average cost of capital is an appropriate rate of return for LPSCO to earn on its invested capital?

A. The 7.72 percent weighted average cost of capital figure that I am recommending meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

The Hope decision allows for the rate of return to cover both the operating expenses and the "capital costs of the business" which includes interest on debt and dividend payment to shareholders. This is predicated on the belief that, in the long run, a company that cannot meet its debt obligations and provide its shareholders with an adequate rate of return will not continue to supply adequate public utility service to ratepayers.

Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient to cover all operating and capital costs is guaranteed?

A. No. Neither case *guarantees* a rate of return on utility investment. What the Bluefield and Hope decisions *do allow*, is for a utility to be provided with the *opportunity* to earn a reasonable rate of return on its investment. That is to say that a utility, such as LPSCO, is provided with the opportunity to earn an appropriate rate of return if the Company's management exercises good judgment and manages its assets and resources in a manner that is both prudent and economically efficient.

COST OF EQUITY CAPITAL

Q. What is your final recommended cost of equity capital for LPSCO?

A. I am recommending a cost of equity of 8.01 percent. My recommended 8.01 percent cost of equity figure is the mean average of the results of my DCF and CAPM analyses, which utilized both a sample of publicly traded water providers and a sample of publicly traded natural gas local distribution companies ("LDC"). This calculation is exhibited on page 3 of my Schedule WAR-1.

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate LPSCO's cost of equity capital.

A. The DCF method employs a stock valuation model known as the constant growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e. the Gordon model), the professor of finance who was responsible for its development. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost of capital (i.e. the cost at which an investor is willing to forego other investments in favor of the one that he or she has chosen).

Another way of looking at the investor's cost of capital is to consider it from the standpoint of a company that is offering its shares of stock to the investing public. In order to raise capital, through the sale of common stock, a company must provide a required rate of return on its stock that will attract investors to commit funds to that particular investment. In this respect, the terms "cost of capital" and "investor's required return" are one in the same. For common stock, this required return is a function of the dividend that is paid on the stock. The investor's required rate of return can be expressed as the percentage of the dividend that is paid on the stock (dividend yield) plus an expected rate of future dividend growth. This is illustrated in mathematical terms by the following formula:

$$k = \frac{D_1}{P_0} + g$$

where: k = the required return (cost of equity, equity capitalization rate),

$\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated by dividing the expected dividend by the current market price of the given share of stock, and

g = the expected rate of future dividend growth

This formula is the basis for the standard growth valuation model that I used to determine LPSCO' cost of equity capital.

Q. In determining the rate of future dividend growth for LPSCO, what assumptions did you make?

A. There are two primary assumptions regarding dividend growth that must be made when using the DCF method. First, dividends will grow by a constant rate into perpetuity, and second, the dividend payout ratio will remain at a constant rate. Both of these assumptions are predicated on the traditional DCF model's basic underlying assumption that a company's earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as g = b x r.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.[2]

[2] Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

Table I

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.25	$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	$1.00	$1.04	$1.082	$1.125	$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.649	$0.675	$0.702	4.00%

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of $10.00 per share, an investor-expected equity return of ten percent, and a dividend payout ratio of sixty percent. This results in earnings per share of $1.00 ($10.00 book value x 10 percent equity return) and a dividend of $0.60 ($1.00 earnings/sh. x 0.60 payout ratio) during Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's earnings are retained as opposed to being paid out to investors, book value increases to $10.40 in Year 2 of Mr. Hill's illustration. Table I presents the results of this continuing scenario over the remaining five-year period.

The results displayed in Table I demonstrate that under "steady-state" (i.e. constant) conditions, book value, earnings and dividends all grow at the same constant rate. The table further illustrates that the dividend growth rate, as discussed earlier, is a function of (1) the internally generated funds or earnings that are retained by a company to become new equity, and (2) the return that an investor earns on that new equity. The DCF dividend growth rate, expressed as g = b x r, is also referred to as the internal or sustainable growth rate.

Q. If earnings and dividends both grow at the same rate as book value, shouldn't that rate be the sole factor in determining the DCF growth rate?

A. No. Possible changes in the expected rate of return on either common equity or the dividend payout ratio make earnings and dividend growth by themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.47	$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	$1.00	$1.04	$1.623	$1.720	$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.974	$1.032	$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent[3] exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six

[3] [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) ÷ Year 1 Earnings/Sh] = [($1.04 - $1.00) ÷ $1.00] = [$0.04 ÷ $1.00] = 4.00%

percent.[4] If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rate for earnings and dividends, displayed in the last column, is 16.20 percent. If this rate was to be used in the DCF model, the utility's return on common equity would be expected to increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1]. This is clearly an unrealistic expectation.

Although it is not illustrated in Mr. Hill's hypothetical example, a change in only the dividend payout ratio will eventually result in a utility paying out more in dividends than it earns. While it is not uncommon for a utility in the real world to have a dividend payout ratio that exceeds one hundred percent on occasion, it would be unrealistic to expect the practice to continue over a sustained long-term period of time.

Q. Other than the retention of internally generated funds, as illustrated in Mr. Hill's hypothetical example, are there any other sources of new equity capital that can influence an investor's growth expectations for a given company?

A. Yes, a company can raise new equity capital externally. The best example of external funding would be the sale of new shares of common stock. This would create additional equity for the issuer and is often the

[4] [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = <u>6.00%</u>

case with utilities that are either in the process of acquiring smaller systems or providing service to rapidly growing areas.

Q. How does external equity financing influence the growth expectations held by investors?

A. Rational investors will put their available funds into investments that will either meet or exceed their given cost of capital (i.e. the return earned on their investment). In the case of a utility, the book value of a company's stock usually mirrors the equity portion of its rate base (the utility's earning base). Because regulators allow utilities the opportunity to earn a reasonable rate of return on rate base, an investor would take into consideration the effect that a change in book value would have on the rate of return that he or she would expect the utility to earn. If an investor believes that a utility's book value (i.e. the utility's earning base) will increase, then he or she would expect the return on the utility's common stock to increase. If this positive trend in book value continues over an extended period of time, an investor would have a reasonable expectation for sustained long-term growth.

Q. Please provide an example of how external financing affects a utility's book value of equity.

A. As I explained earlier, one way that a utility can increase its equity is by selling new shares of common stock on the open market. If these new shares are purchased at prices that are higher than those shares sold previously, the utility's book value per share will increase in value. This would increase both the earnings base of the utility and the earnings expectations of investors. However, if new shares sold at a price below the pre-sale book value per share, the after-sale book value per share declines in value. If this downward trend continues over time, investors might view this as a decline in the utility's sustainable growth rate and will have lower expectations regarding growth. Using this same logic, if a new stock issue sells at a price per share that is the same as the pre-sale book value per share, there would be no impact on either the utility's earnings base or investor expectations.

Q. Please explain how the external component of the DCF growth rate is determined.

A. In his book, The Cost of Capital to a Public Utility,[5] Dr. Gordon (the individual responsible for the development of the DCF or constant growth model) identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

[5] Gordon, M.J., The Cost of Capital to a Public Utility, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

$$g = (br) + (sv)$$

where: g = DCF expected growth rate,

b = the earnings retention ratio,

r = the return on common equity,

s = the fraction of new common stock sold that accrues to a current shareholder, and

v = funds raised from the sale of stock as a fraction of existing equity.

and v = 1 - [(BV) ÷ (MP)]

where: BV = book value per share of common stock, and

MP = the market price per share of common stock.

Q. Did you include the effect of external equity financing on long-term growth rate expectations in your analysis of expected dividend growth for the DCF model?

A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of Schedule WAR-4, where it is added to the internal growth rate estimate (br) to arrive at a final sustainable growth rate estimate.

. . .

Q. Please explain why your calculation of external growth on page 2 of Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in the equation [(M ÷ B) + 1] ÷ 2.

A. The market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital (one of the desired effects of regulation). As a result of this situation, I used [(M ÷ B) + 1] ÷ 2 as opposed to the current market-to-book ratio by itself to represent investor's expectations that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

Q. Has the Commission ever adopted a cost of capital estimate that included this assumption?

A. Yes. In a prior Southwest Gas Corporation rate case[6], the Commission adopted the recommendations of ACC Staff's cost of capital witness, Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill used the same methods that I have used in arriving at the inputs for the DCF model. His final recommendation for Southwest Gas Corporation was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book ratio assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

[6] Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

Q. How did you develop your dividend growth rate estimate?

A. I analyzed data on two separate proxy groups. A water company proxy group comprised of three publicly traded water companies and a natural gas proxy group consisting of ten natural gas local distribution companies ("LDC") that have similar operating characteristics to water providers.

Q. Why did you use a proxy group methodology as opposed to a direct analysis of LPSCO?

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with LPSCO itself. Consequently it was necessary to create a proxy by analyzing publicly traded water companies and LDC's with similar risk characteristics.

Q. In determining your dividend growth rate estimates, both you and the Company's witness analyzed the data on publicly traded water utilities. Why did you and the Company witness analyze only publicly traded water utilities as opposed to firms that provide wastewater service?

A. The use of water utilities was necessitated by the fact that there is a lack of financial and market information available on stand-alone wastewater utilities. This in itself is not a problem, given the fact that both water and wastewater utilities share similar risk characteristics. Both types of utilities provide a basic service for which there are no substitutes and are also subject to strict federal and state regulations.

Q. Are there any other advantages to the use of a proxy?

A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope decision that a utility is entitled to earn a rate of return that is commensurate with the returns on investments of other firms with comparable risk. The proxy technique that I have used derives that rate of return. One other advantage to using a sample of companies is that it reduces the possible impact that any undetected biases, anomalies, or measurement errors may have on the DCF growth estimate.

Q. What criteria did you use in selecting the companies that make up your water company proxy for LPSCO?

A. Three of the four water companies used in the proxy are publicly traded on the New York Stock Exchange ("NYSE") and one of them, Southwest Water Company, is traded over the counter through the National Association of Securities Dealers Automated Quotation System ("NASDAQ"). All four water companies are followed by The Value Line Investment Survey ("Value Line") and are the same companies that comprise Value Line's large capitalization Water Utility Industry segment of the U.S. economy (Attachment A contains Value Line's October 23, 2009 update of the water utility industry and evaluations of the water companies used in my proxy).

Q. Are these the same water utilities that you have used in prior rate case proceedings?

A. Yes.

Q. Please describe the companies that comprise your water company proxy group.

A. My water company proxy group includes American States Water Co. (stock ticker symbol "AWR"), California Water Service Group ("CWT"), Southwest Water Company ("SWWC") and Aqua America, Inc. ("WTR"). Each of these water companies face the same types of risk that LPSCO faces. For the sake of brevity, I will refer to each of these companies by their appropriate stock ticker symbols henceforth.

Q. Briefly describe the areas served by the companies in your water company sample proxy.

A. In addition to providing water service to residents of Fountain Hills, Arizona through its wholly owned subsidiary Chaparral City Water Company, AWR also serves communities located in Los Angeles, Orange and San Bernardino counties in California. CWT provides service to customers in seventy-five communities in California, New Mexico and

Washington. CWT's principal service areas are located in the San Francisco Bay area, the Sacramento, Salinas and San Joaquin Valleys and parts of Los Angeles. SWWC owns and manages regulated systems in California, New Mexico, Oklahoma and Texas. WTR is a holding company for a large number of water and wastewater utilities operating in nine different states including Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

Q. Are these the same water companies that LPSCO used in its application?

A. LPSCO's cost of equity witness, Mr. Thomas J. Bourassa, used all of the water companies included in my water proxy with the exception of SWWC. Mr. Bourassa also used three other water companies in his cost of capital analysis[7] which are included in Value Line's Small and Mid Cap Edition.

Q. Why did you exclude the water companies that are followed in Value Line's Small and Mid Cap Edition?

A. Value Line does not provide the same type of forward-looking information (i.e. long-term estimates on return on common equity and share growth) on small and mid-cap companies that it provides on the three water companies that I used in my proxy. Consequently, as in the case of

[7] Connecticut Water Service, Inc., Middlesex Water Company and SJW Corp.

Southwest Water Company, these water providers are not as suitable as the ones that I have used in my analysis.

Q. What criteria did you use in selecting the natural gas LDC's included in your proxy for LPSCO?

A. As are the water companies that I just described, each of the natural gas LDC's used in the proxy are publicly traded on a major stock exchange (all ten trade on the NYSE) and are followed by Value Line. Each of the ten LDC's in my sample are tracked in Value Line's natural gas Utility industry segment. All of the companies in the proxy are engaged in the provision of regulated natural gas distribution services. Attachment B of my testimony contains Value Line's most recent evaluation of the natural gas proxy group that I used for my cost of common equity analysis.

Q. What companies are included your natural gas proxy?

A. The ten natural gas LDC's included in my proxy (and their NYSE ticker symbols) are AGL Resources, Inc. ("AGL"), Atmos Energy Corp. ("ATO"), Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"), Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation ("SWX"), which is the dominant natural gas provider in Arizona, and WGL Holdings, Inc. ("WGL"). These are the same ten LDC's that I analyzed in the most recent UNS Gas, Inc. proceeding.[8]

Q. Briefly describe the regions of the U.S. served by the ten natural gas LDC's that make up your sample proxy.

A. The ten LDC's listed above provide natural gas service to customers in the Middle Atlantic region (i.e. NJI which serves portions of northern New Jersey, SJI which serves southern New Jersey and WGL which serves the Washington D.C. metro area), the Southeast and South Central portions of the U.S. (i.e. AGL which serves Virginia, southern Tennessee and the Atlanta, Georgia area and PNY which serves customers in North Carolina, South Carolina and Tennessee), the South, deep South and Midwest (i.e. ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas, Colorado and Kansas, GAS which provides service to northern and western Illinois, and LG which serves the St. Louis area), and the Pacific Northwest (i.e. NWN which serves Washington state and Oregon). Portions of Arizona, Nevada and California are served by SWX.

Q. Did the Company's witness also perform a similar analysis using natural gas LDC's?

A. No, he did not.

[8] Docket No. G-04204A-08-0571

Q. Please explain your DCF growth rate calculations for the sample companies used in your proxy.

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the utilities included in the sample for the historical observation period 2004 to 2008 for both the water and LDC industries. Schedule WAR-5 also includes Value Line's projected 2009, 2010 and 2012-14 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for both the water utilities and the LDC's.

Q. Please describe how you used the information displayed in Schedule WAR-5 to estimate each comparable utility's dividend growth rate.

A. In explaining my analysis, I will use AWR as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (described on pages 12 and 13) to multiply AWR's earned return on common equity by its earnings retention ratio for each year in the 2004 to 2008 observation period to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5, Page 1, AWR's average internal growth rate of 2.62% over the 2004 to 2008 period reflects an up and down pattern of growth that ranged from a low of 1.01% in 2002 to a high of 3.79% during 2007. Value Line is predicting that growth will increase steadily from 3.05% in 2008, to 6.23% by the end of the 2012-14 time frame. After weighing Value Line's projections for internal growth, stable outlook for earnings per share, increased growth for dividends per share and no change in book value per share growth, I believe that a 6.20% rate of internal growth is reasonable for AWR. (Schedule WAR-4, Page 1 of 2).

Q. Please continue with the external growth rate component portion of your analysis.

A. Schedule WAR-5 demonstrates that the pattern of shares outstanding for AWR increased from 16.75 million to 17.30 million from 2004 to 2008. Value Line is predicting that this level will increase from 18.50 million in 2009 to 20.00 million by the end of 2014. Based on this data, I believe that a 5.00 percent growth in shares is not unreasonable for AWR (Page 2 of Schedule WAR-4). My final dividend growth rate estimate for AWR is 9.03 percent (6.20 percent internal + 2.83 percent external) and is shown on Page 1 of Schedule WAR-4.

...

Q. What is your average DCF dividend growth rate estimate for your sample of water utilities?

A. My average DCF dividend growth rate estimate for my water company sample is 7.18 percent as displayed on page 1 of Schedule WAR-4.

Q. Did you use the same approach to determine an average dividend growth rate for the proxy comprised of natural gas LDC's?

A. Yes.

Q. What is your average DCF dividend growth rate estimate for the sample natural gas utilities?

A. My average DCF dividend growth rate estimate is 5.23 percent, which is also displayed on page 1 of Schedule WAR-4.

Q. How does your average dividend growth rate estimates on water companies compare to the growth rate data published by Value Line and other analysts?

A. Schedule WAR-6 compares my sustainable growth estimates with the five-year projections of analysts at both Zacks Investment Research, Inc. ("Zacks") (Attachment C) and Value Line. In the case of the water companies, my 7.18 percent estimate exceeds Zacks' average long-term EPS projection of 6.57 percent and Value Line's growth projection of 3.74 percent (which is an average of EPS, DPS and BVPS). My 7.18 percent estimate is 313 basis points higher than the 4.05 percent average of Value Line's historical and projected data averaged with the consensus opinions published by Zacks. My 7.18 percent growth estimate is also 595 basis points higher than Value Line's 1.23 percent 5-year compound historical average of EPS, DPS and BVPS. The estimates of analysts at Value Line indicate that investors are expecting somewhat higher performance from the water utility industry in the future given their 7.00 percent to 7.50 percent book return on common equity over the 2009 to 2014 period. On balance, I would say my 7.18 percent estimate is an optimistic representation of the growth projections that are available to the investing public.

Q. How do your average dividend growth rate estimates on natural gas LDC's compare to the growth rate data published by Value Line and other analysts?

A. In regard to the natural gas LDC's, my 5.23 percent estimate is 57 basis points lower than the average 5.80 percent long-term EPS consensus projections published by Zacks, and 85 basis points higher than the 4.38 percent Value Line projected estimate (which is an average of EPS, DPS and BVPS). As can also be seen on Schedule WAR-6, the 5.23 percent estimate that I have calculated is 54 basis points lower than the 5.77 percent average of the 5-year historic EPS, DPS and BVPS means of Value Line and 13 basis points lower than the 5.36 percent five-year compound historical average of Value Line data (on EPS, DPS and BVPS). In fact, my 5.23 percent estimate is 7 basis points higher than the combined 5.16 percent Value Line and Zacks averages displayed in Schedule WAR-6. In the case of the LDC's I would say that my 5.23 percent estimate, which is lower than Zack's but higher than Value Line's forecasts, is a fairly good representation of the growth projections presented by securities analysts at this point in time.

Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

A. For both the water companies and the natural gas LDC's I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's October 23, 2009 Ratings and Reports water utility industry update and Value Line's September 11, 2009 Ratings and Reports natural gas utility update. I then divided those figures by the eight-week average closing price per share of the appropriate utility's common stock. The eight-week average price is based on the daily adjusted closing stock prices for each of the companies in my proxies for the period August 24, 2009 to October 16, 2009.

...

Q. Based on the results of your DCF analysis, what is your cost of equity capital estimate for the water and natural gas utilities included in your sample?

A. As shown on Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 9.94 percent for the water utilities and 9.50 percent for the natural gas LDC's.

Capital Asset Pricing Model (CAPM) Method

Q. Please explain the theory behind CAPM and why you decided to use it as an equity capital valuation method in this proceeding.

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe[9], the Timken Professor Emeritus of Finance at Stanford University, who shared the 1990 Nobel Prize in Economics for research that eventually resulted in the CAPM model. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[10] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences.

[9] William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

[10] Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

Finance theory has always held that as the risk associated with a given investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply stated, the underlying theory behind CAPM states that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk) associated with that investment. In mathematical terms, the formula is as follows:

$$k = r_f + [\, ß\, (r_m - r_f)\,]$$

where:

where:	k	=	the expected return of a given security,
	r_f	=	risk-free rate of return,
	$ß$	=	beta coefficient, a statistical measurement of a security's systematic risk,
	r_m	=	average market return (e.g. S&P 500), and
	$r_m - r_f$	=	market risk premium.

Q. What types of financial instruments are generally used as a proxy for the risk-free rate of return in the CAPM model?

A. Generally speaking, the yields of U.S. Treasury instruments are used by analysts as a proxy for the risk-free rate of return component.

Q. Please explain why U.S. Treasury instruments are regarded as a suitable proxy for the risk-free rate of return?

A. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate components,[11] a real rate of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the real rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds,

[11] As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

compensation must be provided for future investment opportunities foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my testimony, this compensation translates into higher rates of returns to the investor.

Q. What security did you use for a risk-free rate of return in your CAPM analysis?

A. I used an eight-week average of the yield on a 5-year U.S. Treasury instrument. The yields were published in Value Line's Selection and Opinion publication dated September 4, 2009 through October 23, 2009 (Attachment D). This resulted in a risk-free (r_f) rate of return of 2.46 percent.

Q. Why did you use the yield on a 5-year year U.S. Treasury instrument as opposed to a short-term T-Bill?

A. While a shorter term instrument, such as a 91-day T-Bill, presents the lowest possible total risk to an investor, a good argument can be made that the yield on an instrument that matches the investment period of the asset being analyzed in the CAPM model should be used as the risk-free rate of return. Since utilities in Arizona generally file for rates every three to five years, the yield on a 5-year U.S. Treasury Instrument closely matches the investment period or, in the case of regulated utilities, the period that new rates will be in effect.

Q. How did you calculate the market risk premium used in your CAPM analysis?

A. I used both a geometric and an arithmetic mean of the historical total returns on the S&P 500 index from 1926 to 2008 as the proxy for the market rate of return (r_m). For the risk-free portion of the risk premium component (r_f), I used the geometric mean of the total returns of intermediate-term government bonds for the same eighty-two year period. The market risk premium (r_m - r_f) that results by using the geometric mean of these inputs is 4.20 percent (9.60% - 5.40% = 4.20%). The market risk premium that results by using the arithmetic mean calculation is 6.10 percent (11.70% - 5.60% = 6.10%).

Q. How did you select the beta coefficients that were used in your CAPM analysis?

A. The beta coefficients (ß), for the individual utilities used in both my proxies, were calculated by Value Line and were current as of October 23, 2009 for the water companies and September 11, 2009 for the natural gas LDC's. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the service providers included in my water company sample ranged from 0.65 to 1.10 with an average beta of 0.83. The beta coefficients for the LDC's included in my natural gas sample ranged from 0.60 to 0.75 with an average beta of 0.67.

Q. What are the results of your CAPM analysis?

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean to calculate the risk premium results in an average expected return of 5.92 percent for the water companies and 5.25 percent for the natural gas LDC's. My calculation using an arithmetic mean results in an average expected return of 7.49 percent for the water companies and 6.51 percent for the natural gas LDC's.

Q. Please summarize the results derived under each of the methodologies presented in your testimony.

A. The following is a summary of the cost of equity capital derived under each methodology used:

METHOD	RESULTS
DCF (Water Sample)	9.94%
DCF (Natural Gas Sample)	9.50%
CAPM (Water Sample)	5.92% – 7.49%
CAPM (Natural Gas)	5.25% – 6.51%

Based on these results, my best estimate of an appropriate range for a cost of common equity for LPSCO is 5.25 percent to 9.94 percent. My final recommended cost of common equity figure is 8.01 percent.

Q How did you arrive at your final recommended 8.01 percent cost of common equity?

A. My recommended 8.01 percent cost of common equity is the mean average of my DCF and CAPM results. The calculation of my 8.01 percent cost of common equity can be seen on Schedule WAR-1, Page 2 of 2.

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The 12.50 percent cost of equity capital proposed by the Company is 449 basis points higher than the 8.01 percent OCRB cost of equity capital that I am recommending.

Current Economic Environment

Q. Please explain why it is necessary to consider the current economic environment when performing a cost of equity capital analysis for a regulated utility.

A. Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rates of return that investors earn on their invested funds. Each of these factors represent potential risks that must be weighed when estimating the cost of equity capital for a regulated utility and are, most often, the same factors considered by individuals who are also investing in non-regulated entities.

Q. Please discuss your analysis of the current economic environment.

A. My analysis includes a brief review of the economic events that have occurred since 1990. Schedule WAR-8 displays various economic indicators and other data that I will refer to during this portion of my testimony.

In 1991, as measured by the most recently revised annual change in gross domestic product ("GDP"), the U.S. economy experienced a rate of growth of negative 0.20 percent. This decline in GDP marked the beginning of a mild recession that ended sometime before the end of the first half of 1992. Reacting to this situation, the Federal Reserve Board

("Federal Reserve" or "Fed"), then chaired by noted economist Alan Greenspan, lowered its benchmark federal funds rate[12] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

During this same period, the nation's major money center banks followed the Federal Reserve's lead and began lowering their interest rates as well. By the end of the fourth quarter of 1993, the prime rate (the rate charged by banks to their best customers) had dropped to 6.00 percent from a 1990 level of 10.01 percent. In addition, the Federal Reserve's discount rate on loans to its member banks had fallen to 3.00 percent and short-term interest rates had declined to levels that had not been seen since 1972.

Although GDP increased in 1992 and 1993, the Federal Reserve took steps to increase interest rates beginning in February of 1994, in order to keep inflation under control. By the end of 1995, the Federal discount rate had risen to 5.21 percent. Once again, the banking community followed the Federal Reserve's moves. The Fed's strategy, during this period, was to engineer a "soft landing." That is to say that the Federal Reserve wanted to foster a situation in which economic growth would be stabilized without incurring either a prolonged recession or runaway inflation.

[12] This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

Q. Did the Federal Reserve achieve its goals during this period?

A. Yes. The Fed's strategy of decreasing interest rates to stimulate the economy worked. The annual change in GDP began an upward trend in 1992. A change of 4.50 percent and 4.20 percent were recorded at the end of 1997 and 1998 respectively. Based on daily reports that were presented in the mainstream print and broadcast media during most of 1999, there appeared to be little doubt among both economists and the public at large that the U.S. was experiencing a period of robust economic growth highlighted by low rates of unemployment and inflation. Investors, who believed that technology stocks and Internet company start-ups (with little or no history of earnings) had high growth potential, purchased these types of issues with enthusiasm. These types of investors, who exhibited what former Chairman Greenspan described as "irrational exuberance," pushed stock prices and market indexes to all time highs from 1997 to 2000.

Q. What has been the state of the economy since 2001?

A. The U.S. economy entered into a recession near the end of the first quarter of 2001. The bullish trend, which had characterized the last half of the 1990's, had already run its course sometime during the third quarter of 2000. Economic data released since the beginning of 2001 had already been disappointing during the months preceding the September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon. Slower growth figures, rising layoffs in the high technology manufacturing sector, and falling equity prices (due to lower earnings expectations) prompted the Fed to begin cutting interest rates as it had done in the early 1990's. The now infamous terrorist attacks on New York City and Washington D.C. marked a defining point in this economic slump and prompted the Federal Reserve to continue its rate cutting actions through December 2001. Prior to the 9/11 attacks, commentators, reporting in both the mainstream financial press and various economic publications including Value Line, believed that the Federal Reserve was cutting rates in the hope of avoiding a recession.

Despite several intervals during 2002 and 2003 in which the Federal Open Market Committee ("FOMC") decided not to change interest rates – moves which indicated that the worst may be over and that the recession might have bottomed out during the last quarter of 2001 – a lackluster economy persisted. The continuing economic malaise and even fears of possible deflation prompted the FOMC to make a thirteenth rate cut on June 25, 2003. The quarter point cut reduced the federal funds rate to 1.00 percent, the lowest level in forty-five years.

Even though some signs of economic strength, mainly attributed to consumer spending, began to crop up during the latter part of 2002 and into 2003, Chairman Greenspan appeared to be concerned with sharp declines in capital spending in the business sector.

During the latter part of 2003, the FOMC went on record as saying that it intended to leave interest rates low "for a considerable period." After its two-day meeting that ended on January 28, 2004, the FOMC announced "that with inflation 'quite low' and plenty of excess capacity in the economy, policy-makers 'can be patient in removing its policy accommodation.'[13]

Q. What actions has the Federal Reserve taken in terms of interest rates since the beginning of 2001?

A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut interest rates a total of thirteen times. During this period, the federal funds rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25 percent. From June 29, 2004 to January 31, 2006, the FOMC raised the federal funds rate thirteen more times to a level of 4.50 percent.

The FOMC's January 31, 2006 meeting marked the final appearance of Alan Greenspan, who had presided over the rate setting body for a total of eighteen years. On that same day, Greenspan's successor, Ben Bernanke, the former chairman of the President's Council of Economic Advisers and a former Fed governor under Greenspan from 2002 to 2005, was confirmed by the U.S. Senate to be the new Federal Reserve chief.

[13] Wolk, Martin, "Fed holds interest rates steady," MSNBC, January 28, 2004.

As expected by Fed watchers, Chairman Bernanke picked up where his predecessor left off and increased the federal funds rate by 25 basis points during each of the next three FOMC meetings for a total of seventeen consecutive rate increases since June 2004, and raising the federal funds rate to a level of 5.25 percent. The Fed's rate increase campaign finally came to a halt at the FOMC meeting held on August 8, 2006, when the FOMC decided not to raise rates.

Q. What was the reaction in the financial community to the Fed's decision not to raise interest rates?

A. As in the past, banks followed the Fed's lead once again and held the prime rate to a level of 8.25 percent, or 300 basis points higher than the federal funds rate of 5.25 percent established on June 29, 2006.

Q. How did analysts view the Fed's actions between January 2001 and August 2006?

A. According to an article that appeared in the December 2, 2004 edition of The Wall Street Journal, the FOMC's decision to begin raising rates two years ago was viewed as a move to increase rates from emergency lows in order to avoid creating an inflation problem in the future as opposed to slowing down the strengthening economy.[14] In other words, the Fed was

[14] McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

trying to head off inflation *before* it became a problem. During the period following the August 8, 2006 FOMC meeting, the Fed's decisions not to raise rates were viewed as a gamble that a slower U.S. economy would help to cap growing inflationary pressures.[15]

Q. Was the Fed attempting to engineer another "soft landing", as it did in the mid-nineties, by holding interest rates steady?

A. Yes, however, as pointed out in an August 2006 article in The Wall Street Journal by E.S. Browning, soft landings – like the one that the Fed managed to pull off during the 1994-95 time frame, in which a recession or a bear market were avoided – rarely happen[16]. Since it began increasing the federal funds rate in June 2004, the Fed had assured investors that it would increase rates at a "measured" pace. Many analysts and economists interpreted this language to mean that former Chairman Greenspan would be cautious in increasing interest rates too quickly in order to avoid what is considered to be one of the Fed's few blunders during Greenspan's tenure – a series of increases in 1994 that caught the financial markets by surprise after a long period of low rates. The rapid rise in rates contributed to the bankruptcy of Orange County, California

[15] Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

[16] Browning, E.S, "Not Too Fast, Not Too Slow…," The Wall Street Journal Online Edition, August 21, 2006.

and the Mexican peso crisis[17]. According to Mr. Browning, at the time that his article was published, the hope was that Chairman Bernanke would succeed in slowing the economy "just enough to prevent serious inflation, but not enough to choke off growth." In other words, "a 'Goldilocks economy,' in which growth is not too hot and not too cold."

Q. Was the Fed's attempt to engineer a soft landing successful during the period that followed the August 8, 2006 FOMC meeting?

A. It would appear so. Articles published in the mainstream financial press were generally upbeat on the economy during that period. An example of this is an article written by Nell Henderson that appeared in the January 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a year into [Fed Chairman] Bernanke's tenure, the [economic] picture has turned considerably brighter. Inflation is falling; unemployment is low; wages are rising; and the economy, despite continued problems in housing, is growing at a brisk clip."[18]

Q. What has been the state of the economy over the past two years?

A. Reports in the mainstream financial press during the majority of 2007 reflected the view that the U.S. economy was slowing as a result of a

[17] Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

[18] Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

worsening situation in the housing market and higher oil prices. The overall outlook for the economy was one of only moderate growth at best. Also during this period the Fed's key measure of inflation began to exceed the rate setting body's comfort level.

On August 7, 2007, the FOMC decided not to increase or decrease the federal funds rate for the ninth straight time and left its target rate unchanged at 5.25 percent.[19] At the time of the Fed's decision, analysts speculated that a rate cut over the next several months was unlikely given the Fed's concern that inflation would fail to moderate. However, during this same period, evidence of an even slower economy and a possible recession was beginning to surface. Within days of the Fed's decision to stand pat on rates, a borrowing crisis rooted in a deterioration of the market for subprime mortgages and securities linked to them, forced the Fed to inject $24 billion in funds (raised through open market operations) into the credit markets.[20] By Friday, August 17, 2007, after a turbulent week on Wall Street, the Fed made the decision to lower its discount rate (i.e. the rate charged on direct loans to banks) by 50 basis points, from 6.25 percent to 5.75 percent, and took steps to encourage banks to borrow from the Fed's discount window in order to provide liquidity to

[19] Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

[20] Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

lenders. According to an article that appeared in the August 18, 2007 edition of The Wall Street Journal,[21] the Fed had used all of its tools to restore normalcy to the financial markets. If the markets failed to settle down, the Fed's only weapon left was to cut the Federal Funds rate – possibly before the next FOMC meeting scheduled on September 18, 2007.

Q. Did the Fed cut rates as a result of the subprime mortgage borrowing crises?

A. Yes. At its regularly scheduled meeting on September 18, 2007, the FOMC surprised the investment community and cut both the federal funds rate and the discount rate by 50 basis points (25 basis points more than what was anticipated). This brought the federal funds rate down to a level of 4.75 percent. The Fed's action was seen as an effort to curb the aforementioned slowdown in the economy. Over the course of the next four months, the FOMC reduced the Federal funds rate by a total 175 basis points to a level of 3.00 percent – mainly as a result of concerns that the economy was slipping into a recession. This included a 75 basis point reduction that occurred one week prior to the FOMC's meeting on January 29, 2008.

[21] Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

Q. What actions has the Fed taken in regard to interest rates since the beginning of 2008?

A. The Fed made two more rate cuts which included a 75 basis point reduction in the federal funds rate on March 18, 2008 and an additional 25 basis point reduction on April 30, 2008. The Fed's decision to cut rates was based on its belief that the slowing economy was a greater concern than the current rate of inflation (which the majority of FOMC members believed would moderate during the economic slowdown).[22] As a result of the Fed's actions, the federal funds rate was reduced to a level of 2.00 percent. From April 30, 2008 through September 16, 2008, the Fed took no further action on its key interest rate. However, the days before and after the Fed's September 16, 2008 meeting saw longstanding Wall Street firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of their subprime holdings. By the end of the week, the Bush administration had announced plans to deal with the deteriorating financial condition which had now become a worldwide crisis. The administrations actions included former Treasury Secretary Henry Paulson's request to Congress for $700 billion to buy distressed assets as part of a plan to halt what has been described as the worst financial crisis since the 1930's[23]. Amidst this turmoil, the Fed made the decision to cut the federal funds rate by another

[22] Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal, March 19, 2008

[23] Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

50 basis points in a coordinated move with foreign central banks on October 8, 2008. This was followed by another 50 basis point cut during the regular FOMC meeting on October 29, 2008. At the time of this writing, the federal funds target rate now stands at 0.25 percent, the result of a 75 basis point cut announced on December 16, 2008. After FOMC meetings in January, March April, June, August and September of 2009, the Fed elected not to make any changes in the federal funds rate, stating in January that the rate would remain low "for some time."[24] Presently, the Fed's discount rate is at 0.50 percent, a level not seen since the 1940s.[25] Based on data released during the early part of December 2008, the U.S. has officially been in a recession since December of 2007.

Q. Putting this all into perspective, how have the Fed's actions since 2000 affected benchmark rates?

A. U.S. Treasury instruments are for the most part still at historically low levels. As can be seen on the first page of Attachment D, the previously mentioned federal discount rate (the rate charged to the Fed's member banks), has fallen to 0.50 percent from 1.75 percent in 2008.

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[24] Hilsenrath, Jon and Liz Rappaport, "Fed Weighs Idea of Buying Treasurys as Focus Shifts" The Wall Street Journal, January 29, 2009

[25] Hilsenrath, Jon, "Fed Cuts Rates Near Zero to Battle Slump" The Wall Street Journal, December 17, 2008

Q. What has been the trend in other leading interest rates over the last year?

A. As of October 14, 2009, all of the leading interest rates, with the exception of the 30-year constant maturity and 30-year Zero rates, have dropped from levels that existed a year ago (Attachment D, Value Line Selection & Opinion page 3253). The prime rate has fallen from 4.50 percent a year ago to 3.25 percent. The benchmark federal funds rate, just discussed, has decreased from 1.50 percent, in October 2008, to a level of 0.00 - 0.25 percent (as a result of the December 16, 2008 rate cut discussed above). The yields on all of the non-inflation protected maturities of U.S. Treasury instruments exhibited in my Attachment C have also decreased over the past year. A previous trend, described by former Chairman Greenspan as a "conundrum"[26], in which long-term rates fell as short-term rates increased, thus creating a somewhat inverted yield curve that existed as late as June 2007, is completely reversed and a more traditional yield curve (one where yields increase as maturity dates lengthen) presently exists (Attachment D). The 5-year Treasury yield, used in my CAPM analysis, has fallen from 2.82 percent, in October 2008, to 2.33 percent as of October 14, 2009. As noted above, the 30-Year Treasury constant maturity rate increased from 4.19 percent over the past year to 4.26 percent. These current yields are considerably lower than

[26] Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005

corresponding yields that existed during the early nineties and at the beginning of the current decade (as can be seen on Schedule WAR-8).

Q. What is the current outlook for the economy?

A. Value Line's analysts have become increasingly optimistic in their outlook on the economy as of late and had this to say in the October 23, 2009 edition of Value Line's Selection and Opinion publication:

> **The economy remains a good news, bad news story.** Clearly, the business outlook is improving. In fact, much of the data — covering a range of consumer and industrial sectors — now affirm that the recession ended in the second quarter and an upturn began over the summer. What is less clear is the strength of that revival, as most reports being issued are consistent only in being inconsistent.

Value Line's analysts went on to state

> **Investors are smiling again**, after dramatic stock market gains this year. Now, the challenge will be to extend that positive momentum. This will not be an easy task given the ever-richer P/E ratios, which are now present, following the market's steep rise.

Q. How are water utilities faring in the current economic environment?

A. Although there are some concerns regarding long-term infrastructure requirements, water utilities still appear to a good investment according to Value Line analyst Andre J. Costanza. In the October 23, 2009 quarterly update on the water utility industry Mr. Costanza stated the following:

> This industry is a good place for cautious investors looking to park themselves until a sustained market recovery is evident. Water utility stocks are historically more recession proof than the broader market, with their steady dividend growth reducing turbulence in share price and padding returns

Q. After weighing the economic information that you've just discussed, do you believe that the 8.01 percent cost of equity capital that you have estimated is reasonable for LPSCO?

A. I believe that my recommended 8.01 percent cost of equity will provide LPSCO with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are low by historical standards), the current situation in new housing construction, and the Fed's ability to keep inflation in check are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my cost of equity analysis, which is an average of the results of both the DCF and CAPM models, has produced such a return.

CAPITAL STRUCTURE AND COST OF DEBT

Q. Have you reviewed LPSCO's testimony regarding the Company's proposed capital structure?

A. Yes, I have.

Q. Please describe the Company's proposed capital structure.

A. The Company is proposing a capital structure comprised of 17.83 percent long-term debt and 82.17 percent common equity.

Q. Is LPSCO's proposed capital structure in line with industry averages?

A. No. LPSCO's capital structure is much heavier in common equity as opposed to the capital structures of the other water and natural gas companies included in my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged approximately 47.8 percent long-term debt and 52.2 percent equity, that is displayed on Schedule WAR-9 of my direct testimony.

Q. In terms of risk, how does LPSCO's capital structure compare to the water utilities in your sample?

A. The water utilities in my sample would be perceived as having a higher level of financial risk (i.e. the risk associated with debt repayment) because of their higher levels of debt. The additional financial risk due to debt leverage is embedded in the cost of equities derived for those companies through the DCF analysis. Thus, the cost of equity derived in my DCF analysis is applicable to companies that are more leveraged and, theoretically speaking, riskier than a utility such as LPSCO. In the case of a publicly traded company, like those included in my proxy, a company with LPSCO's level of equity would be perceived as having much lower financial risk and would therefore also have a lower expected return on common equity.

Q. Are you recommending a hypothetical capital structure for LPSCO in this case?

A. No. Although LPSCO's capital structure is heavier in common equity than the utilities in my water and natural gas samples, I am recommending that the Commission adopt the Company-proposed capital structure since it is comprised of actual industrial development authority ("IDA") debt.

Q. Haven't you recommended hypothetical capital structures in the past for other Algonquin-owned utilities?

A. Yes, however those utilities had imprudent capital structures comprised of 100 percent common equity. To correct that situation, I recommended hypothetical capital structures comprised of sixty percent debt and forty percent equity.

Q. Have you made any downward adjustment to your cost of equity recommendation as a result of the lower level of risk attributable to LPSCO's equity rich capital structure?

A. No, I have not. I am comfortable with my unadjusted 8.01 percent cost of equity capital given the current state of the economy and the most recent Value Line projections on the water utility industry.

Q. What is the Company-proposed cost of long-term debt?

A. The Company-proposed cost of long-term debt is 6.39 percent.

Q. Are you in agreement with the Company-proposed cost of long-term debt?

A. Yes. I am recommending that the Commission adopt the Company-proposed 6.39 percent cost of long-term IDA debt.

Q. How does the Company's proposed weighted cost of capital compare with your recommendation?

A. LPSCO has proposed a weighted average cost of capital of 11.41 percent which reflects the aforementioned levels of long-term debt and common equity in the Company-proposed capital structure. The Company-proposed 11.41 percent weighted average cost of capital is 369 basis points higher than the 7.72 percent weighted cost that I am recommending. This is the result of the higher Company-proposed 12.50 percent cost of common equity.

COMMENTS ON LPSCO'S COST OF EQUITY CAPITAL TESTIMONY

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The Company's cost of capital witness, Mr. Bourassa is recommending a cost of common equity of 12.50 percent. His 12.50 percent cost of equity capital is 449 basis points higher than the 8.01 percent cost of equity capital that I have calculated.

Q. What methods did Mr. Bourassa use to arrive at his cost of common equity for LPSCO?

A. Mr. Bourassa used both the DCF and CAPM methods. His DCF analysis relies on two constant growth versions of the DCF model that are similar to the model that I have used. His first constant growth model relies only on earnings growth estimates for the "g" component of the model while his second constant growth model relies on sustainable growth estimates for the "g" component. Mr. Bourassa also uses a two-stage growth version of the DCF model. The results of his DCF analyses range from 8.30 percent to 13.60 percent and produce a mean average of 11.70 percent. Mr. Bourassa's CAPM analysis uses the same model that I have used but he obtains two different results: one obtained by using an historical risk premium and the other by using a current market risk premium. His CAPM analysis produces results of 9.30 percent using an historical risk premium and 23.50 percent using a current market risk premium. His average CAPM result is 16.4 percent.

Q. What are the main reasons for the difference in the results that you obtained from your DCF analysis and the results that Mr. Bourassa obtained from his DCF analysis using the constant growth model?

A. Mr. Bourassa conducted his analysis in February of 2009 and consequently much of the data that he used in his analysis is now stale. This can be seen in a price comparison of three of the water company stocks that we both used in our samples: The difference between the average adjusted closing stock prices used in my DCF model and spot prices used by Mr. Bourassa in his DCF models are as follows:

	Rigsby	Bourassa	Difference
AWR	$35.29	$33.91	$1.38
CWT	$38.22	$40.30	- $2.08
WTR	$16.96	$18.79	- $1.83

Q. What is the main difference between your constant growth DCF results and Mr. Bourassa's first constant growth model which relied strictly on earnings growth?

A. In respect to Mr. Bourassa's first constant growth model, which relied strictly on earnings growth, there is only a 4 basis point difference between the average dividend yields of the three water utilities that our samples have in common; his 3.00 percent to my 3.04 percent. However, there is a 100 basis point difference between his 8.17 percent average growth estimate ("g") for the three common utilities (i.e. AWR, CWT, and WTR) as opposed to my 7.17 percent estimate which also takes into account other growth estimates on dividends and book value. Subsequently Mr. Bourassa's DCF estimate, relying only on earnings growth, is 9.05 percent as opposed to my estimate of 7.18 percent which takes into account more recent data on stock prices and growth projections for earnings, dividends and book value on the three water utilities our samples have in common.

Q. Please explain the main difference between your constant growth DCF results and Mr. Bourassa's second constant growth model which relied on sustainable growth?

A. The same 4 basis point difference between our estimated dividend yields exists in Mr. Bourassa's sustainable growth version of the constant growth model. However, his estimate for the "g" component is seriously flawed. As I noted earlier in my testimony, Value Line does not provide long-term projections on earnings, dividends and book value on the other three water utilities used by Mr. Bourassa in his sample. Consequently, Mr. Bourassa uses an unfounded 7.01 percent averaging derived from his growth estimates for AWR, CWT and WTR and applied it to the other three water utilities. This has the effect of increasing his DCF model's median average estimate by 40 basis points.

Q. Did you conduct a two-stage DCF analysis like the one conducted by Mr. Bourassa?

A. No. Primarily because the growth rate component that I estimated for my single-stage model already takes into consideration both the near-term and long-term growth rate projections that Mr. Bourassa averaged in his multi-stage model. This being the case, I saw no need to conduct a separate DCF analysis.

Q. What are the main differences between your CAPM results and Mr. Bourassa's CAPM results?

A. The differences between our CAPM results is attributable to the selection of U.S. Treasury instruments used as inputs for the risk-free rate of return and the time period that has expired since Mr. Bourassa filed his direct testimony. Mr. Bourassa's average beta of 0.93 has also fallen since his testimony was filed, and his market risk premiums of 7.5 percent to 21.30 percent are simply not realistic when compared with the market risk premiums, ranging from 4.20 percent to 6.10 percent, that I obtained from Morningstar's 2009 SBBI Yearbook.

Q. Please explain the differences in your risk free rates of return.

A. I relied on a 5-year treasury rate whereas Mr. Bourassa relied on an average of 5, 7, and 10-year Treasury rates in his historical risk premium CAPM Analysis, and a 30-year Treasury rate in his current market risk premium CAPM analysis. Consequently his risk free rate of return is higher due to the inclusion of longer-term Treasury yields. Mr. Bourassa's reliance on maturities that are greater than five years is unfounded when one takes into account that utilities generally file for new rates every three to five years.

Q. What would be Mr. Bourassa's updated CAPM inputs using current data instead of the stale data used in the Company's testimony?

A. Yes. Based on data for the week ended October 23, 2009 (obtained in a Federal Reserve Statistical Release dated October 26, 2009), the average yield of the 5, 7 and 10-year U.S. treasury instruments, that Mr. Bourassa used as the risk free rate in his historical market risk premium CAPM model, was 2.94 percent as opposed to the average yield of 2.30 percent that he relied on. The yield on the 30-year rate was 4.22 percent as opposed to the 3.70 percent rate that Mr. Bourassa used in his current market risk premium CAPM model. Although his selected Treasury yields increased since February of 2009, the average beta used in his CAPM analyses has dropped from an average of 0.98 to an average of 0.80. Holding his higher market risk premium inputs constant produces an historical market risk premium result of 8.94 percent as opposed to his 9.30 percent, and a current market risk premium result of 21.26 percent as opposed to his 23.50 percent. However, as I stated earlier, Mr. Bourassa's market risk premium inputs are clearly excessive and should not be given any weight.

...

Q. What would Mr. Bourassa's CAPM models produce if you substituted a 5.15 percent average of your market risk premiums?

A. Mr. Bourassa's historical market risk premium model would produce an expected return of 7.06 percent and his current market risk premium model would produce an expected return of 8.34 percent.

Q. How did Mr. Bourassa arrive at his final 12.50 percent cost of common equity for LPSCO?

A. Mr. Bourassa's final estimate of 12.50 percent is based upon his review of the results of his various DCF and CAPM models, along with the application of his "expertise and informed judgment."

Q. Is there any merit in the rationale used by Mr. Bourassa in regard to size on page 18 of his direct testimony?

A. No. As I stated earlier in my testimony, LPSCO is a wholly owned subsidiary of Algonquin Power Income Fund, a large publicly traded mutual fund that has direct access to the capital markets. In addition to this, to the best of my knowledge, the Commission has never granted a higher cost of common equity based on company size.

...

Q. Does your cost of capital recommendation take into consideration any perceived business risks that LPSCO might face?

A. Yes. I believe that the large amount of equity contained in my recommended capital structure would mitigate any perceived business that investors might think LPSCO faces.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of Mr. Bourassa or any other witness for LPSCO constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on LPSCO?

A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:	University of Phoenix Master of Business Administration, Emphasis in Accounting, 1993
	Arizona State University College of Business Bachelor of Science, Finance, 1990
	Mesa Community College Associate of Applied Science, Banking and Finance, 1986
	Society of Utility and Regulatory Financial Analysts 38th Annual Financial Forum and CRRA Examination Georgetown University Conference Center, Washington D.C. Awarded the Certified Rate of Return Analyst designation after successfully completing SURFA's CRRA examination.
	Michigan State University Institute of Public Utilities N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999
	Florida State University Center for Professional Development & Public Service N.A.R.U.C. Annual Western Utility Rate School, 1996
EXPERIENCE:	Public Utilities Analyst V Residential Utility Consumer Office Phoenix, Arizona April 2001 – Present
	Senior Rate Analyst Accounting & Rates - Financial Analysis Unit Arizona Corporation Commission, Utilities Division Phoenix, Arizona July 1999 – April 2001
	Senior Rate Analyst Residential Utility Consumer Office Phoenix, Arizona December 1997 – July 1999
	Utilities Auditor II and III Accounting & Rates – Revenue Requirements Analysis Unit Arizona Corporation Commission, Utilities Division Phoenix, Arizona October 1994 – November 1997
	Tax Examiner Technician I / Revenue Auditor II Arizona Department of Revenue Transaction Privilege / Corporate Income Tax Audit Units Phoenix, Arizona July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.	Type of Proceeding
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077	Rate Increase

ATTACHMENT A

INDUSTRY TIMELINESS: 72 (of 98)

There has not been much change in the Water Utility Industry since our last review in July. Providers continued to reap the benefits of an increasingly favorable regulatory backing, with most in the group posting solid top- and bottom-line growth in the second quarter (September results were not out as of the date this issue was published).

However, the industry has fallen well into the bottom half of our *Survey* for Timeliness, as share-price gains paled in comparison to those enjoyed by the seemingly revitalized broader market. We suspect that water utility stocks will continue to lose some of their shine in the months ahead for similar reasons, as hopes of economic stability prompt many to look outside this relative safe-haven in hopes of securing wider gains. Making matter worse, earnings growth is likely to slow in the second half of the year and remain weak thereafter, due to tougher comparisons and burgeoning operating costs.

Longer-term growth prospects are not much better either. Despite the brighter regulatory landscape, infrastructure costs are expected to continue ramping up due to aging water systems, geographic expansion, and increasingly stringent EPA regulations. These, along with the subsequent financing expenses, will offset most of the aforementioned help, and thus limit appreciation potential going forward. As a result, most of the stocks in this segment offer minimal 3-to 5-year appeal.

Bright Demand Picture

These utilities have the ultimate job security. Water is a necessity, a fact that cannot be changed no matter what. Recognizing that a community's well being is closely tied to a providers health, many state regulatory bodies that were once antagonists, have changed their tune and taken on a more business approach. These authorities, which were put in place to help maintain a balance of power between customers and providers and to ensure fair business practices, are now handing down more favorable rulings. Responsible for reviewing and ruling on general rate requests made by utilities to help recover costs, they hold tremendous power and can potentially make or break a company. The recent about face in demeanor creates a far more favorable climate and augurs well for providers.

Alarming Costs

That said, the water utility industry has some issues to contend with. Infrastructures are getting older and becoming inadequate in many cases. Some will require heavy investment in order to make the necessary repairs, while EPA standards get tougher due to the potential threat of bioterrorism. In all, infrastructure costs are estimated to amount to hundreds of millions of dollars over the next decade. Unfortunately, most operating in this space are laden with debt and strapped for cash. They will be forced to seek outside financing in order to meet the growing capital outlays, with the higher interest rate costs and greater share counts thwarting shareholder returns. Note, however, that, as a result of the industry's capital intensive nature, consolidation is white hot. Those with the flexibility to meet its commitments have ample opportunity to make deals and grow their customer base.

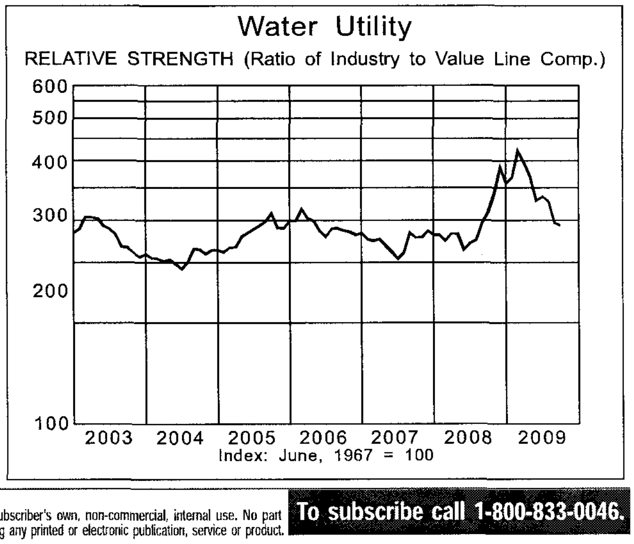
Conclusion

This industry is a good place for cautious investors looking to park themselves until a sustained market recovery is evident. Water utility stocks are historically more recession proof than the broader market, with their steady dividend growth reducing turbulence in share price and padding returns. However, those with a penchant for growth will probably want to take a pass, opting for an area with more upside. There are a couple of issues here that stand out for 3- to 5-year appreciation potential, namely *Aqua America* and *Southwest Water Company*, but the latter's Below Average (4) Safety rank and poor Financial Strength rating may evoke some apprehension. Meanwhile, *Aqua*'s dependence on an aggressive acquisition tendency to drive gains may well need to be tempered if finances continue to deteriorate. *American Water Works* is another interesting option, but its short trading history and lack of performance indicators should scare off most. As always, we advise potential investors to read the individual reports of each stock before making a financial commitment.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2005	2006	2007	2008	2009	2010		12-14
1256.9	3454.1	3702.5	3913.8	*4180*	*4475*	Revenues ($mill)	*5425*
148.2	d5.8	d183.0	352.7	*425*	*485*	Net Profit ($mill)	*625*
40.5%	NMF	NMF	37.0%	*38.0%*	*39.0%*	Income Tax Rate	*40.0%*
1.1%	NMF	NMF	6.5%	*8.0%*	*10.0%*	AFUDC % to Net Profit	*15.0%*
50.4%	54.0%	51.0%	52.6%	*54.0%*	*52.5%*	Long-Term Debt Ratio	*50.0%*
49.5%	45.9%	49.0%	47.4%	*46.0%*	*47.5%*	Common Equity Ratio	*50.0%*
3053.8	12113.9	12985.9	12629.1	*13600*	*14125*	Total Capital ($mill)	*16250*
4200.7	13308.3	14315.2	15356.1	*16180*	*16950*	Net Plant ($mill)	*19375*
6.3%	1.6%	.2%	4.3%	*5.0%*	*5.0%*	Return on Total Cap'l	*6.0%*
9.8%	NMF	NMF	5.9%	*7.0%*	*7.0%*	Return on Shr. Equity	*7.5%*
9.8%	NMF	NMF	5.9%	*7.0%*	*7.0%*	Return on Com Equity	*7.5%*
3.7%	NMF	NMF	2.9%	*3.0%*	*3.5%*	Retained to Com Eq	*4.5%*
62%	NMF	NMF	51%	*65%*	*62%*	All Div'ds to Net Prof	*60%*
29.4	NMF	NMF				Avg Ann'l P/E Ratio	*22.0*
1.57	NMF	NMF		*Bold figures are Value Line estimates*		Relative P/E Ratio	*1.45*
2.1%	2.0%	2.3%				Avg Ann'l Div'd Yield	*2.5%*



AMER. STATES WATER NYSE-AWR

RECENT PRICE	36.04	P/E RATIO	18.8 (Trailing: 22.4 / Median: 22.0)	RELATIVE P/E RATIO	1.08	DIV'D YLD	2.8%	VALUE LINE

TIMELINESS **3** Lowered 6/5/09
SAFETY **3** New 2/4/00
TECHNICAL **3** Raised 10/23/09
BETA .80 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	46.1	42.0	38.8
Low:	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	33.6	27.0	29.8

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+65%)	16%
Low	40	(+10%)	6%

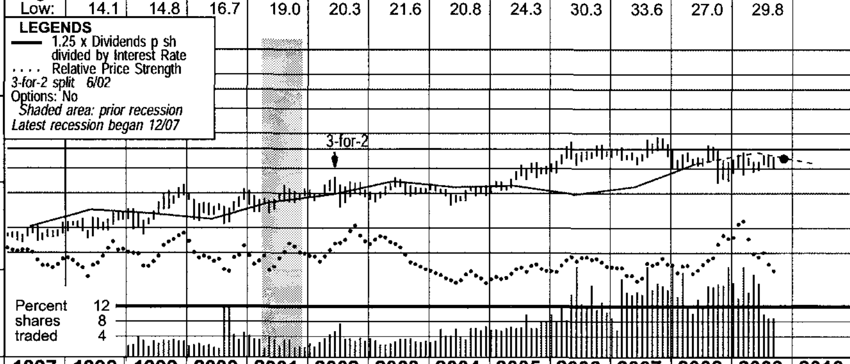
Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	2	0	0	1	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	64	55	66
to Sell	52	66	53
Hld's(000)	8980	9283	10578

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
Options: No
Shaded area: prior recession
Latest recession began 12/07



Target Price Range
2012 | 2013 | 2014
128
96
80
64
48
40
32
24
16
12

% TOT. RETURN 9/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-3.3	12.6
3 yr.	2.5	5.1
5 yr.	67.2	36.4

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	18.42	*18.90*	*19.75*	Revenues per sh	*21.75*
1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.37	*3.80*	*3.95*	"Cash Flow" per sh	*4.60*
1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.55	*1.90*	*2.05*	Earnings per sh A	*2.60*
.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	*1.02*	*1.08*	Div'd Decl'd per sh B■	*1.25*
1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	4.45	*4.00*	*4.25*	Cap'l Spending per sh	*5.00*
9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.95	*16.55*	*19.45*	Book Value per sh	*22.00*
11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.30	*18.50*	*18.75*	Common Shs Outst'g C	*20.00*
13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.37	*Value Line*		Relative P/E Ratio	*1.35*
5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	*estimates*		Avg Ann'l Div'd Yield	*2.5%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $317.8 mill. **Due in 5 Yrs** $12.0 mill.
LT Debt $306.3 mill. **LT Interest** $22.0 mill.
(LT interest earned: 4.8x: total interest coverage: 4.4x) (46% of Cap'l)

Leases, Uncapitalized: Annual rentals $2.9 mill.

Pension Assets-12/08 $54.2 mill.
Oblig. $94.5 mill.

Pfd Stock None.

Common Stock 18,499,423 shs.
as of 8/5/09
MARKET CAP: $675 million (Small Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
173.4	184.0	197.5	209.2	212.7	228.0	236.2	268.6	301.4	318.7	*350*	*370*	Revenues ($mill)	*435*
16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	*35.0*	*39.0*	Net Profit ($mill)	*52.0*
46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	*35.5%*	*37.0%*	Income Tax Rate	*40.0%*
--	--	--	--	--	--	--	12.2%	8.5%	6.9%	*5.0%*	*5.0%*	AFUDC % to Net Profit	*5.0%*
51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	*46.5%*	*46.0%*	Long-Term Debt Ratio	*46.5%*
48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	*53.5%*	*54.0%*	Common Equity Ratio	*53.5%*
328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	569.4	577.0	*665*	*675*	Total Capital ($mill)	*825*
449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	*870*	*925*	Net Plant ($mill)	*1025*
6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	*7.0%*	*7.5%*	Return on Total Cap'l	*8.5%*
10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	*10.0%*	*10.5%*	Return on Shr. Equity	*12.0%*
10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	*10.0%*	*10.5%*	Return on Com Equity	*12.0%*
2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.9%	3.1%	*5.0%*	*5.5%*	Retained to Com Eq	*6.0%*
72%	68%	65%	65%	113%	84%	67%	67%	58%	64%	*56%*	*52%*	All Div'ds to Net Prof	*48%*

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	1.7	7.3	9.8
Other	43.7	66.9	87.6
Current Assets	63.1	90.6	97.4
Accts Payable	29.1	36.6	39.6
Debt Due	37.8	75.3	11.5
Other	27.4	25.5	37.8
Current Liab.	94.3	137.4	88.9
Fix. Chg. Cov.	314%	293%	440%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	4.5%	5.0%	*4.0%*
"Cash Flow"	5.5%	6.0%	*6.5%*
Earnings	3.5%	5.5%	*9.5%*
Dividends	1.5%	2.0%	*4.5%*
Book Value	4.5%	5.0%	*4.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	64.3	63.0	75.0	66.3	268.6
2007	72.3	79.3	75.8	74.0	301.4
2008	68.9	80.3	85.3	84.2	318.7
2009	79.6	93.6	*91.8*	*85.0*	*350*
2010	*83.0*	*99.0*	*98.0*	*90.0*	*370*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.35	.36	.32	.30	1.33
2007	.40	.42	.44	.35	1.62
2008	.30	.53	.26	.43	1.55
2009	.28	.64	*.56*	*.42*	*1.90*
2010	*.30*	*.65*	*.60*	*.50*	*2.05*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.225	.225	.225	.225	.90
2006	.225	.225	.225	.235	.91
2007	.235	.235	.235	.250	.96
2008	.250	.250	.250	.250	1.00
2009	.250	.250	.250		

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 675 employees. Officers & directors own 2.5% of common stock (4/09 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Inc: CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Internet: www.aswater.com.

Recent regulatory changes are fueling strength at American States Water. The water utility provider posted earnings of $0.64 a share in the second quarter, 21% better than last year, as a more business friendly approach by the California Public Utilities Commission helped sales improve 17%, to $94 million, despite a decrease in water consumption. Specifically, the adoption of a water rate adjustment mechanism and a modified cost balancing account were $2.2 million accretive to the top line and boosted share earnings by $0.07. We suspect that third-quarter results were probably even more impressive, with the bottom line nearly doubling from last year's weak tally. As a result, we've raised our full-year earnings estimate by 12% to $1.90.

We think there could be some hurdles ahead, however. Comparisons get much tougher beginning with the December quarter and are likely to remain so henceforth. Meanwhile, operating costs appear to be on the rise, with infrastructure and maintenance expenses continuing to mount due to aging water systems. Thus, we look for growth to slow considerably in the fourth quarter and 2010.

Finances remain a major concern. Although management paid down roughly $45 million in debt in the June quarter, it was forced to issue shares to do so. Further debt reduction is highly unlikely going forward, with ongoing financing likely to be used to meet capital requirements. In fact, we look for AWR to tap debt and equity markets in the future in order to comply with increasingly stringent EPA *regulations and improve infrastructures.* The increased interest rate expense and greater share count that will accompany such maneuverings are likely to dilute future gains, though.

Growth-minded investors can find better options. AWR does not stand out for Timeliness or 3- to 5-year appreciation potential, as infrastructure costs mire future growth rates. Although income-minded investors may be hesitant to jump aboard, given that there has yet to be an announcement about a dividend increase, we are not concerned and suspect that a raise is on the horizon, *thus maintaining* the history of annual dividend growth.

Andre J. Costanza *October 23, 2009*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢). Next earnings report due early Nov. May not add due to rounding.

(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	70
Earnings Predictability	70

CALIFORNIA WATER NYSE-CWT

RECENT PRICE	39.52	P/E RATIO	18.7 (Trailing: 18.7 / Median: 22.0)	RELATIVE P/E RATIO	1.07	DIV'D YLD	3.0%	VALUE LINE

TIMELINESS 3 Lowered 7/3/09
SAFETY 3 Lowered 7/27/07
TECHNICAL 4 Raised 10/23/09
BETA .75 (1.00 = Market)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8	45.4	46.6	48.3				
Low:	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8	34.2	27.7	33.5				

Target Price Range
2012 | 2013 | 2014

2012-14 PROJECTIONS

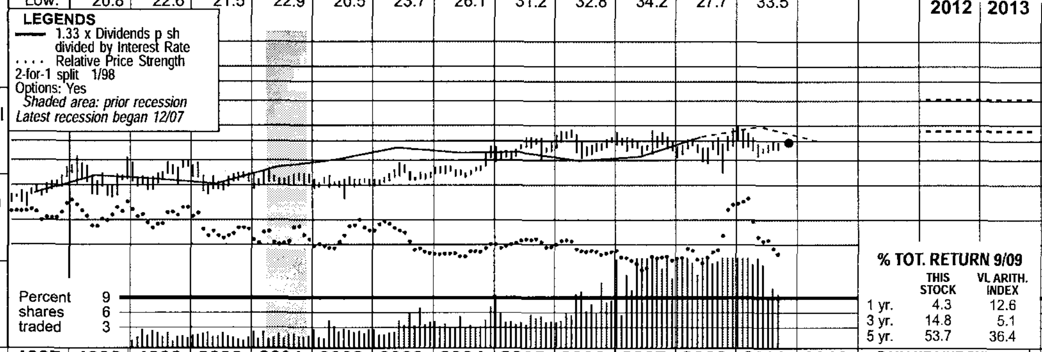
	Price	Gain	Ann'l Total Return
High	65	(+65%)	15%
Low	45	(+15%)	6%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	107	83	76
to Sell	46	81	85
Hld's(000)	9799	10000	10018



% TOT. RETURN 9/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	4.3	12.6
3 yr.	14.8	5.1
5 yr.	53.7	36.4

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	17.76	19.80	21.45	21.85	Revenues per sh	24.45
2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.03	2.71	3.12	3.72	4.15	4.20	"Cash Flow" per sh	4.65
1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.34	1.50	1.90	2.10	2.20	Earnings per sh A	2.65
.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	1.16	1.17	1.18	1.19	Div'd Decl'd per sh B ■	1.34
2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	4.01	4.28	3.68	4.82	5.00	5.00	Cap'l Spending per sh	5.00
10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.79	18.15	18.50	19.44	19.75	20.45	Book Value per sh C	22.20
11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	20.66	20.67	20.72	21.00	21.50	Common Shs Outst'g D	22.50
13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	Bold figures are		Avg Ann'l P/E Ratio	21.0
.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.20	Value Line		Relative P/E Ratio	1.40
5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	estimates		Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 6/30/09
Total Debt $398.2 mill. Due in 5 Yrs $39.8 mill.
LT Debt $383.5 mill. LT Interest $24.0 mill.

(LT interest earned: 4.7x; total int. cov.: 4.3x)

Pension Assets-12/08 $66.9 mill.
Oblig. $192.9 mill.

Pfd Stock None

Common Stock 20,744,952 shs.
as of 8/3/09

MARKET CAP: $825 million (Small Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	367.1	410.3	450	470	Revenues ($mill) E	550
19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	31.2	39.8	45.0	47.0	Net Profit ($mill)	60.0
37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	37.7%	38.5%	38.5%	Income Tax Rate	39.0%
--	--	--	--	10.3%	3.2%	3.3%	10.6%	8.3%	8.6%	8.5%	10.0%	AFUDC % to Net Profit	10.0%
46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	41.6%	48.5%	47.0%	Long-Term Debt Ratio	45.0%
52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	58.4%	51.5%	53.0%	Common Equity Ratio	55.0%
333.8	388.8	402.7	453.1	498.4	565.9	568.1	670.1	674.9	690.4	800	825	Total Capital ($mill)	950
515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1010.2	1112.4	1175	1240	Net Plant ($mill)	1425
7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	5.9%	7.1%	7.0%	7.0%	Return on Total Cap'l	8.0%
11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.3%	6.8%	8.1%	9.9%	11.5%	10.5%	Return on Shr. Equity	12.0%
11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.1%	9.9%	11.5%	10.5%	Return on Com Equity	12.0%
3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	1.0%	1.8%	3.8%	5.0%	5.0%	Retained to Com Eq	6.0%
70%	82%	119%	90%	91%	77%	78%	86%	77%	61%	55%	54%	All Div'ds to Net Prof	50%

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	6.7	13.9	41.5
Other	53.3	65.9	83.0
Current Assets	60.0	79.8	124.5
Accts Payable	36.7	45.1	48.3
Debt Due	2.7	42.8	14.7
Other	30.3	35.3	38.2
Current Liab.	69.7	123.2	101.2
Fix. Chg. Cov.	333%	398%	432%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	2.0%	1.5%	5.5%
"Cash Flow"	2.0%	5.5%	6.5%
Earnings	--	7.0%	9.0%
Dividends	1.0%	0.5%	2.5%
Book Value	4.0%	6.5%	3.0%

Cal-endar	QUARTERLY REVENUES ($ mill.)E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	65.2	81.1	107.8	80.6	334.7
2007	71.6	95.8	113.8	85.9	367.1
2008	72.9	105.6	131.7	100.1	410.3
2009	86.7	116.7	138.6	108	450
2010	90.0	120	145	115	470

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.04	.31	.68	.31	1.34
2007	.07	.37	.67	.39	1.50
2008	.01	.48	1.06	.35	1.90
2009	.12	.58	1.04	.36	2.10
2010	.13	.60	1.08	.39	2.20

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.285	.285	.285	.285	1.14
2006	.2875	.2875	.2875	.2875	1.15
2007	.290	.290	.290	.290	1.16
2008	.293	.293	.293	.293	1.17
2009	.295	.295	.295		

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 463,600 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '08: residential, 69%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '08 reported depreciation rate: 2.4%. Has roughly 929 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/09 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

An improved regulatory environment has created a more favorable backdrop for California Water Service Group. Indeed, the water utility provider exceeded high expectations in the second quarter, reporting earnings of $0.58 a share, 21% better than last year. The top line advanced 11%, to $116 million, with rate increases adding $19.2 million and offsetting lower usage by existing customers. We expect the top line to continue benefiting from ongoing progress on this front, particularly the California Public Utilities Commission's recent adoption of a water revenue adjustment mechanism, the implementation of a modified cost balancing account, and tiered rates. The company filed a general rate case seeking an additional $70.6 million in 2011, with requests of roughly $25 million for 2012 and 2013. Interim cases, meanwhile, should add nearly $9 million annually.

Nevertheless, we suspect that growth hit a speed bump in the September period . . . (Results were not out when we went to press with this issue.) Although we look for demand to remain healthy, tough comparisons probably resulted in a modest share-net shortfall. Plus, we expect that operating costs did not abate.

. . . and will remain moderate going forward. Even though tough comps ought to subside a bit over the next few quarters, profitability will likely be limited by rising infrastructure costs. Maintenance expenses should continue to rise as many pipelines and wells are in need of serious attention. Meanwhile, the additional finance commitments that will have to be assumed, given CWT's weak balance sheet and high costs of doing business, are expected to limit bottom-line growth for the foreseeable future.

This stock is not for everybody. Its growth prospects are dull, given the growing infrastructure costs that we envision being required over the next couple of years. The issue may, however, interest those looking to take shelter from the economic uncertainty that has resulted in recent broad market volatility. Indeed, CWT's steady dividend growth makes an attractive component in today's market and may well appeal to risk-averse investors seeking a low-risk alternative.

Andre J. Costanza *October 23, 2009*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due late February.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '08: $3.9 mill., $.19/sh.
(D) In millions, adjusted for split.
(E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	70
Earnings Predictability	75

SOUTHWEST WATER NDQ-SWWC

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
5.50	30.6	(Trailing: 50.0) (Median: 29.0)	1.76	1.8%	VALUE LINE

TIMELINESS 4 New 10/23/09
SAFETY 4 New 10/23/09
TECHNICAL 2 Raised 9/25/09
BETA 1.10 (1.00 = Market)

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	16	190%	*31%*
Low	9	65%	*13%*

Insider Decisions

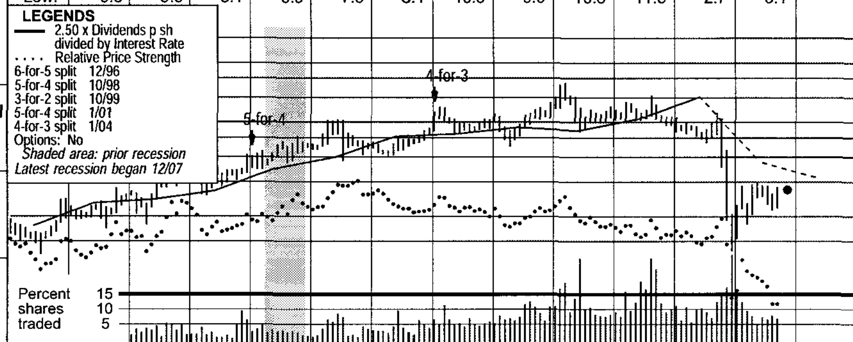
	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	33	39	42
to Sell	42	38	39
Hld's(000)	11260	11007	11107

High:	5.6	9.2	8.3	10.2	12.4	11.2	14.3	15.2	19.1	16.4	13.4	5.9
Low:	3.5	3.6	5.1	6.9	7.6	8.1	10.3	9.0	10.8	11.5	2.7	3.1

Target Price Range
2012 | 2013 | 2014



% TOT. RETURN 9/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-60.8	12.6
3 yr.	-57.5	5.1
5 yr.	-54.1	36.4

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
4.03	4.20	4.84	5.31	5.61	5.63	6.16	7.49	8.15	9.12	10.70	9.23	9.10	9.42	8.96	8.87	*8.60*	*8.80*	Revenues per sh	*10.40*
.38	.38	.44	.46	.53	.59	.65	.76	.87	.86	.91	.67	.78	.85	.69	.66	*1.00*	*1.20*	"Cash Flow" per sh	*1.55*
.08	.09	.12	.15	.21	.25	.31	.38	.42	.39	.44	.23	.34	.40	.31	.04	*.15*	*.30*	Earnings per sh A	*.50*
.14	.08	.08	.09	.09	.10	.11	.13	.14	.15	.16	.18	.20	.21	.23	.24	*.01*	*.01*	Div'd Decl'd per sh B	*.05*
.60	.72	.84	.95	.74	.79	.53	.55	1.06	1.78	1.14	1.26	1.66	1.87	1.70	1.35	*1.70*	*1.75*	Cap'l Spending per sh	*1.90*
2.31	2.31	2.45	2.40	2.52	2.70	3.05	3.44	3.84	4.27	4.90	6.17	6.49	6.98	6.54	4.55	*4.70*	*4.90*	Book Value per sh D	*6.05*
11.97	12.13	11.74	12.45	12.65	12.83	13.12	13.99	14.17	14.35	16.17	20.36	22.33	23.80	24.27	24.90	*25.00*	*25.50*	Common Shs Outst'g C	*26.50*
35.8	22.3	14.6	16.5	16.9	17.2	19.6	17.0	19.8	24.8	21.2	51.6	35.5	34.8	42.1	NMF	*Bold figures are*		Avg Ann'l P/E Ratio	*25.0*
2.11	1.46	.98	1.03	.97	.89	1.12	1.11	1.01	1.35	1.21	2.73	1.89	1.88	2.23	NMF	*Value Line*		Relative P/E Ratio	*1.65*
4.7%	4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%	1.6%	1.5%	1.8%	2.4%	*estimates*		Avg Ann'l Div'd Yield	*1.2%*

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
80.9	104.7	115.5	130.8	173.0	188.0	203.2	224.2	217.3	220.9	*215*	*225*	Revenues ($mill)	*275*
4.2	5.4	6.2	6.0	7.2	4.5	7.3	9.3	5.1	1.0	*3.5*	*7.5*	Net Profit ($mill)	*13.0*
39.0%	37.0%	36.0%	34.9%	35.9%	36.1%	36.0%	35.0%	56.0%	NMF	*NMF*	*NMF*	Income Tax Rate	*NMF*
--	--	14.4%	3.2%	--	11.0%	9.5%	--	12.5%	10.0%	*14.0%*	*13.5%*	AFUDC % to Net Profit	*12.0%*
45.2%	48.8%	51.4%	56.7%	47.9%	47.9%	44.7%	43.6%	47.7%	62.6%	*60.5%*	*57.5%*	Long-Term Debt Ratio	*48.5%*
54.1%	50.7%	48.2%	42.9%	51.8%	52.0%	55.1%	56.3%	52.1%	37.2%	*39.5%*	*42.5%*	Common Equity Ratio	*51.5%*
73.9	95.0	113.0	142.8	152.8	242.0	262.9	295.2	304.5	304.4	*300*	*295*	Total Capital ($mill)	*310*
113.7	157.8	171.1	203.9	219.5	302.6	344.8	389.6	417.9	429.3	*460*	*480*	Net Plant ($mill)	*525*
7.6%	7.6%	7.6%	5.8%	6.2%	3.1%	4.1%	4.5%	2.9%	1.8%	*2.5%*	*3.5%*	Return on Total Cap'l	*5.0%*
10.3%	11.1%	11.4%	9.7%	9.0%	3.6%	5.0%	5.6%	3.2%	.9%	*3.0%*	*6.0%*	Return on Shr. Equity	*8.0%*
10.4%	11.1%	11.4%	9.7%	9.1%	3.6%	5.0%	5.6%	3.2%	.8%	*3.0%*	*6.0%*	Return on Com Equity	*8.0%*
7.0%	7.8%	7.8%	6.3%	5.8%	.8%	2.1%	2.6%	NMF	NMF	*1.0%*	*4.0%*	Retained to Com Eq	*6.5%*
33%	31%	32%	36%	36%	78%	58%	54%	112%	NMF	*85%*	*42%*	All Div'ds to Net Prof	*31%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $152.0 mill. **Due in 5 Yrs** $149.8 mill.
LT Debt $149.8 mill. **LT Interest** $6.6 mill.
(Total interest coverage: 2.7x) (48% of Cap'l)

Leases, Uncapitalized: Annual rentals $5.5 mill.
Pension Liability None

Pfd Stock $.458 mill. **Pfd Div'd** $.020 mill.
Common Stock 24,888,745 shs.
as of 8/31/09

MARKET CAP: $125 million (Small Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	2.9	1.1	1.6
Receivables	26.0	29.7	31.7
Inventory (Avg Cst)	--	--	--
Other	32.7	26.9	24.5
Current Assets	61.6	57.7	57.8
Accts Payable	14.9	16.1	13.7
Debt Due	1.9	2.2	2.2
Other	29.4	28.4	18.6
Current Liab.	46.2	46.7	34.5

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	5.0%	-0.5%	*2.5%*
"Cash Flow"	3.5%	-3.5%	*13.5%*
Earnings	2.0%	-10.0%	*12.0%*
Dividends	9.5%	8.5%	*-22.5%*
Book Value	9.0%	7.0%	*Nil*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	50.8	55.4	60.1	57.9	224.2
2007	48.1	55.0	57.4	56.8	217.3
2008	49.6	56.9	60.4	54.0	220.9
2009	50.1	52.4	*57.0*	*55.5*	*215*
2010	*52.0*	*55.0*	*60.0*	*58.0*	*225*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.03	.08	.16	.13	.40
2007	.03	.09	.09	.11	.31E
2008	d.04	.03	d.02	.07	.04
2009	.03	.03	*.04*	*.05*	*.15*
2010	*.06*	*.06*	*.08*	*.10*	*.30*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.048	.048	.048	.052	.20
2006	.052	.052	.052	.058	.21
2007	.058	.058	.058	.058	.23
2008	.06	.06	.06	.06	.24
2009	.025	.025	.025	.025	

BUSINESS: SouthWest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; and utility infrastructure. It operates four groups, Utility, 32% of 2008 revenues; Texas Utility, 16%; O&M Services, 18%; Texas MUD Services, 34%. Utility and Texas Utility own and manage rate-regulated public water utilities in California, Alabama, Oklahoma, and Texas. O&M and Texas MUD Services maintain projects on a contract and fee basis. Off./dir. own 6.4% of com. shs.; Stein Roe IC, 9.2% (4/08 proxy). CEO/Chrmn: Mark Swatek. Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Ave. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.swwc.com.

SouthWest Water Company finally released its first- and second-quarter 10-Qs for 2009. The company has been delinquent in filing a number of its reports over the past few quarters because of the discovery of mistakes made reporting depreciation rates of assets gained through acquisitions, and accounting issues for revenues and related costs associated with the installation of water and sewer taps. Also, year-over-year revenue and earnings comparisons for the first two quarters are skewed by SouthWest's restatement of its financial reports for those periods. Meanwhile, the company is poised to have a lackluster year as the slowdown in the economy has impacted business over the past few quarters, and should continue to do so.

SouthWest's future growth will likely be achieved through acquisitions and rate increases. To this extent, the company has put in for a number of rate increase cases in California, Texas, and Alabama. It is also positioning itself to make 2010 a "test year" to establish its position for future petitions. SWWC may look to buy a utility to replace the one lost because of an eminent domain lawsuit in New Mexico (sold for a net total of nearly $54 million during the June interim).

This stock is untimely. SouthWest will likely be burdened by a number of charges over the next few quarters related to the late filings. Also, the recession has weighed down housing starts and limits potential new customers.

The recovery potential for this equity is offset by its risk. While we expect the top and bottom lines to recover out to 2012-2014 as the economy picks up, there is a degree of risk associated with these advances. This is reflected by SWWC's low rank for Financial Strength (C++), as well as mediocre scores for Earnings Predictability and Stock Price Stability. Another mark against the appeal of this equity is the reduced dividend payout, lowered 60% from the prior year. Overall, investors should look elsewhere at this time.

John D. Burke *October 23, 2009*

CASH POSITION	5-Year Av'g	6/30/09
Current Assets to Current Liabilities:	125%	168%
Cash & Equiv's to Current Liabilities:	10%	5%
Working Capital to Sales:	5%	11%

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (3¢); '01, (5¢); '02, 1¢; '05, (23¢); '07, (54¢); '08, ($1.35); 1Q '09 (24¢); 2Q '09, (54¢). Next earnings report late November.
(B) Dividends historically paid in late January, April, July, and October.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In 2008: $19.3 million, $0.83/share.
(E) Earnings may not add due to rounding.

Company's Financial Strength	C++
Stock's Price Stability	45
Price Growth Persistence	40
Earnings Predictability	45

AQUA AMERICA NYSE-WTR

RECENT PRICE **16.65** | P/E RATIO **20.1** (Trailing: 22.2; Median: 25.0) | RELATIVE P/E RATIO **1.16** | DIV'D YLD **3.5%** | **VALUE LINE**

TIMELINESS 3 Lowered 6/26/09
SAFETY 3 Lowered 8/1/03
TECHNICAL 4 Raised 10/16/09
BETA .65 (1.00 = Market)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	26.6	22.0	21.5	
Low:	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	18.9	12.2	16.1	

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+140%)	26%
Low	25	(+50%)	13%

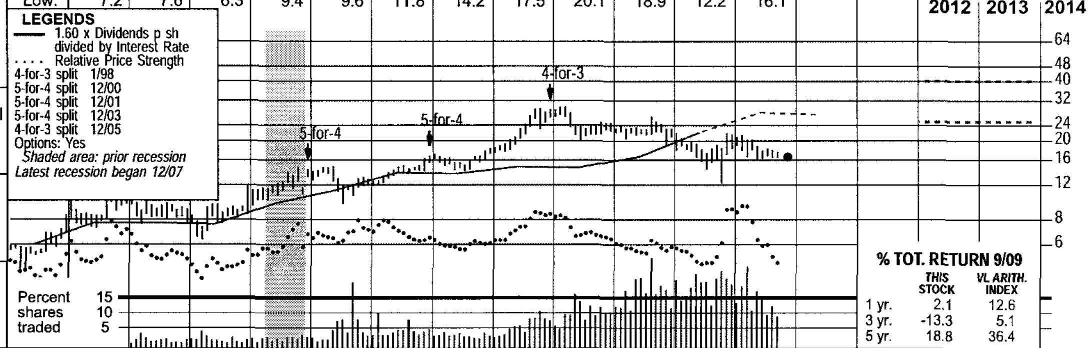
Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	0	1	0	0	0	0	0
to Sell	0	1	0	0	0	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	131	130	117
to Sell	131	134	136
Hld's(000)	60996	63551	61341

LEGENDS
— 1.60 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
4-for-3 split 1/98
5-for-4 split 12/00
5-for-4 split 12/01
5-for-4 split 12/03
4-for-3 split 12/05
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



% TOT. RETURN 9/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	2.1	12.6
3 yr.	-13.3	5.1
5 yr.	18.8	36.4

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.63	**5.00**	**5.30**	Revenues per sh	**6.50**
.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	**1.55**	**1.65**	"Cash Flow" per sh	**2.10**
.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	**.82**	**.90**	Earnings per sh A	**1.25**
.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	**.54**	**.56**	Div'd Decl'd per sh B■	**.65**
.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	**2.10**	**2.20**	Cap'l Spending per sh	**2.75**
2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	**8.05**	**8.35**	Book Value per sh	**10.60**
59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	**136.00**	**136.50**	Common Shs Outst'g C	**138.00**
14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	**25.0**
.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	*estimates*		Relative P/E Ratio	**1.65**
5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%			Avg Ann'l Div'd Yield	**2.0%**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
257.3	275.5	307.3	322.0	367.2	442.0	496.8	533.5	602.5	627.0	**680**	**730**	Revenues ($mill)	**900**
45.0	50.7	58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	**115**	**125**	Net Profit ($mill)	**170**
38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	**39.0%**	**39.0%**	Income Tax Rate	**39.0%**
--	--	--	--	--	--	--	--	2.9%	3.1%	**3.5%**	**3.2%**	AFUDC % to Net Profit	**2.5%**
52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	**54.0%**	**54.0%**	Long-Term Debt Ratio	**49.0%**
46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	**46.0%**	**46.0%**	Common Equity Ratio	**51.0%**
782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	**2385**	**2470**	Total Capital ($mill)	**2865**
1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	**3150**	**3300**	Net Plant ($mill)	**3600**
7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	**6.5%**	**6.5%**	Return on Total Cap'l	**6.5%**
12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	**10.5%**	**11.0%**	Return on Shr. Equity	**11.5%**
12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	**10.5%**	**11.0%**	Return on Com Equity	**11.5%**
4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	**4.0%**	**4.5%**	Retained to Com Eq D	**5.5%**
65%	60%	59%	59%	59%	57%	56%	63%	67%	70%	**64%**	**61%**	All Div'ds to Net Prof	**53%**

CAPITAL STRUCTURE as of 6/30/09
Total Debt $1255.4 mill. **Due in 5 Yrs** $245.0 mill.
LT Debt $1227.7 mill. **LT Interest** $65.0 mill.
(LT interest earned: 3.4x; total interest coverage: 3.4x) (54% of Cap'l)

Pension Assets-12/08 $112.2 mill. **Oblig.** $204.7 mill.

Pfd Stock None

Common Stock 135,917,740 shares as of 7/21/09

MARKET CAP: $2.3 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	14.5	14.9	13.8
Receivables	82.9	84.5	84.9
Inventory (AvgCst)	8.8	9.8	9.7
Other	9.3	11.8	14.1
Current Assets	115.5	121.0	122.5
Accts Payable	45.8	50.0	29.5
Debt Due	80.8	87.9	27.7
Other	56.6	55.3	148.6
Current Liab.	183.2	193.2	205.8
Fix. Chg. Cov.	323%	329%	325%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	8.0%	9.0%	6.5%
"Cash Flow"	9.5%	8.0%	7.5%
Earnings	7.5%	5.5%	10.0%
Dividends	7.0%	8.0%	5.5%
Book Value	9.5%	10.0%	6.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	117.9	131.7	147.0	136.9	533.5
2007	137.3	150.6	165.5	149.1	602.5
2008	139.3	151.0	177.1	159.6	627.0
2009	154.5	167.3	**185**	**173.2**	**680**
2010	**165**	**185**	**195**	**185**	**730**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.13	.17	.21	.19	.70
2007	.13	.17	.22	.19	.71
2008	.11	.17	.26	.19	.73
2009	.14	.19	**.28**	**.21**	**.82**
2010	**.15**	**.22**	**.30**	**.23**	**.90**

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.098	.098	.098	.107	.40
2006	.107	.107	.115	.115	.44
2007	.115	.115	.125	.125	.48
2008	.125	.125	.125	.135	.51
2009	.135	.135	.135		

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '08: residential, 60%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.3% of the common stock (4/09 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America completed the second quarter on a good note. Despite unfavorable weather conditions and the slowdown in the home building market, the company registered revenue and earnings growth of nearly 11%. Also, a number of rate increases were approved by the courts, and the year-to-date approval of $27.2 million in upward rate adjustments should help bolster the top and bottom lines over the next few quarters.

The company is likely to build on this momentum in 2010. Indeed, several rate-relief cases should be decided in the latter half of this year, and the more than $9 million request this year would be accretive to revenues and earnings going into 2010, provided the cases are ruled in Aqua's favor. Additional rate increase petitions for upwards of $50 million will also be filed during the next few months, notably in Pennsylvania and New Jersey.

Aqua America will likely remain active on the acquisition front. One of the company's current growth strategies involves purchasing available utilities and making infrastructure improvements in order to procure rate relief judgments. This should benefit WTR's cost structure, as well as expand its customer base.

A focus will also remain on procuring favorable rate increase judgments over the next few years. As a portion of capital spending (currently planned to run up to about $315 million per annum), approximately 10% is earmarked for "compliance spending", which is used for adjustments mandated by regulating agencies. The remaining 90% will likely be used to make improvements to current facilities in order to petition for more rate increases.

The board of directors approved a dividend increase. During its annual strategy session, a 7.4% rise was instituted, and will bring the year-ahead dividend up to $0.58 a share.

This neutrally ranked stock may appeal to conservative investors. The probable steady dividend growth and the worthwhile appreciation potential over the 2012–2014 horizon support the appeal of these shares. Also of note are the high marks for Stock Price Stability and Earnings Predictability.

John D. Burke *October 23, 2009*

(A) Diluted shares. Excl. nonrec. gains (losses): '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early November.

(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).

(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	70
Earnings Predictability	100

ATTACHMENT B

NATURAL GAS UTILITY

The Natural Gas Utility Industry has lost some ground since our June review. This group now ranks in the middle of our industry spectrum for Timeliness. The economy has shown signs of life in recent months, which has led most investors to look to more-risky plays as opposed to stable picks like natural gas utilities. However, investors should note that these equities typically offer attractive dividend yields that are backed by steady cash flows.

Economic Environment

No doubt, this sector has been pressured by the dour economic climate. The weakness in the housing market has particularly weighed on results for natural gas utilities. Usage has moderated as customers have curbed their consumption in an effort to rein in expenses. What's more, customer growth has been a concern in recent months. These businesses have also been having a tougher time collecting bills of late, which can also hurt results. Therefore, we suggest interested investors watch these trends in the months ahead as they will probably influence this group's performance.

Regulation

Rate cases are a key theme for companies in this sector. These businesses are regulated by state commissions that determine the return on equity these utilities can achieve. As a result, the performance of these equities remains tied to the current rates these companies have in place. Numerous utilities, at any given time, often have cases pending where they seek better rates from these commissions. Positive or negative news regarding a rate case can have a notable impact on a stock's performance in this industry. Notably, the falling natural gas prices in recent months has helped companies seeking rate relief. Indeed, lower prices favor customers, which makes a new rate for these utilities more palatable. Still, regulatory bodies try to strike a balance between customer and shareholder interests when evaluating a rate case. Interested investors should keep a close eye on stocks that have cases pending when reading the following pages.

Business Strategy

Weather is another element to consider when evaluating this industry's performance. Warmer or colder-than-expected weather can lead to volatile results. Thus, most of these utilities use weather-adjusted rate mechanisms to hedge against this risk. As such, we suggest conservative investors look for stocks that utilize this strategy. Many companies have also been increasingly investing in nonregulated businesses. These ventures are free from the regulatory bodies, and as a result, come with greater risk and reward tradeoff. On point, the utilities with nonregulated operations have generally been feeling the effects of the lower energy prices more so than these competitors without such operations. Also, of note, these nonregulated businesses provide another avenue for these utilities to diversify their income. All told, we expect these ventures to continue to be an important opportunity for this sector over the long term. Another strategy in this industry is conservation. Some governments have been offering these utilities incentives to participate in energy conservation programs. This approach allows these companies to adjust to market conditions without sacrificing profitability.

INDUSTRY TIMELINESS: 46 (of 98)

Conclusion

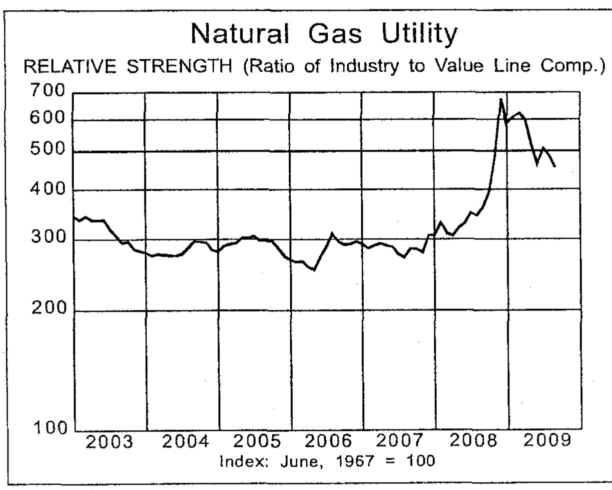
As a group, natural gas utilities will likely remain under pressure in the months ahead due to unfavorable gas prices. As a result, this industry is ranked near the midpoint of our Timeliness spectrum. Still, risk-averse investors may want to consider this group if the economic recovery stalls. Natural gas utilities tend to be a solid defensive play when the stock market is faltering. However, this sector's long-term prospects are uninspiring. Therefore, we recommend patient investors look elsewhere.

All told, investors should study these reports carefully and limit their investments to equities that appear well positioned to weather the difficult operating environment. Additionally, these utilities offer dividend yields that are above the *Value Line* median. Therefore, income-oriented accounts may find stocks with yields that are above the industry average (4.3%) of interest.

Richard Gallagher

Composite Statistics: Natural Gas Utility

2005	2006	2007	2008	2009	2010		12-14
36075	38273	38528	44207	**45500**	**47000**	Revenues ($mill)	**52750**
1386.0	1553.3	1562.4	1694.2	**1775**	**1850**	Net Profit ($mill)	**2150**
36.0%	35.3%	33.9%	35.7%	**36.0%**	**36.0%**	Income Tax Rate	**36.0%**
3.8%	4.0%	4.1%	3.8%	**3.9%**	**3.9%**	Net Profit Margin	**4.1%**
51.3%	51.2%	50.4%	50.6%	**51.0%**	**51.0%**	Long-Term Debt Ratio	**52.0%**
48.4%	48.7%	49.5%	49.4%	**48.0%**	**48.0%**	Common Equity Ratio	**46.0%**
29218	30847	32263	32729	**33250**	**34750**	Total Capital ($mill)	**40000**
30894	32543	33936	35342	**36750**	**38500**	Net Plant ($mill)	**46250**
6.5%	6.6%	6.5%	6.8%	**6.5%**	**6.5%**	Return on Total Cap'l	**7.0%**
9.7%	10.2%	9.8%	10.5%	**10.0%**	**10.5%**	Return on Shr. Equity	**11.0%**
9.8%	10.2%	9.8%	10.5%	**10.0%**	**10.5%**	Return on Com Equity	**11.0%**
3.5%	4.0%	3.7%	4.3%	**4.0%**	**4.5%**	Retained to Com Eq	**5.0%**
65%	61%	62%	59%	**60%**	**62%**	All Div'ds to Net Prof	**65%**
17.1	15.6	16.6	13.9	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	**13.0**
.91	.84	.88	.83			Relative P/E Ratio	**.85**
3.8%	3.9%	3.7%	4.2%			Avg Ann'l Div'd Yield	**4.6%**
315%	327%	336%	358%	**375%**	**375%**	Fixed Charge Coverage	**400%**



AGL RESOURCES NYSE-AGL

RECENT PRICE **33.35** | P/E RATIO **13.1** (Trailing: 10.9; Median: 14.0) | RELATIVE P/E RATIO **0.81** | DIV'D YLD **5.2%** | VALUE LINE

TIMELINESS	**3** Lowered 6/12/09
SAFETY	**2** New 7/27/90
TECHNICAL	**5** Lowered 9/11/09
BETA .75 (1.00 = Market)	

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7	39.1	35.0
Low:	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4	35.2	24.0	24.0

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

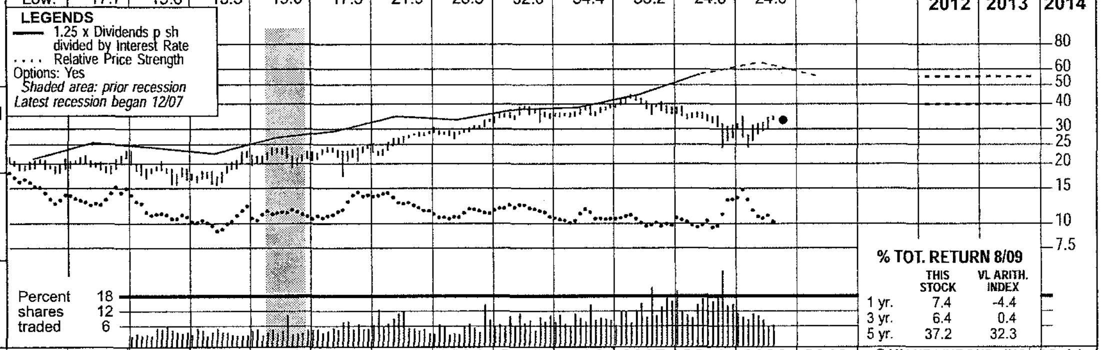
	Price	Gain	Ann'l Total Return
High	55	(+65%)	17%
Low	40	(+20%)	10%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	2	1	0	2	0	0	1	0
to Sell	0	3	1	0	1	0	0	2	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	107	110	124
to Sell	111	107	96
Hld's(000)	46113	45714	45662



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.4	-4.4
3 yr.	6.4	0.4
5 yr.	37.2	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	36.41	**32.20**	**34.50**	Revenues per sh A	**38.80**
2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	**4.70**	**4.95**	"Cash Flow" per sh	**5.40**
1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.71	**2.70**	**2.90**	Earnings per sh A B	**3.30**
1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	**1.72**	**1.76**	Div'ds Decl'd per sh C■	**1.88**
2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.84	**5.15**	**5.30**	Cap'l Spending per sh	**5.60**
9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	21.48	**23.10**	**23.40**	Book Value per sh D	**23.55**
49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	**78.00**	**79.00**	Common Shs Outst'g E	**85.00**
17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	12.3	*Bold figures are*	*Value Line estimates*	Avg Ann'l P/E Ratio	**15.0**
1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74			Relative P/E Ratio	**1.00**
5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	5.0%			Avg Ann'l Div'd Yield	**3.8%**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
1068.6	607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	2494.0	2800.0	**2510**	**2725**	Revenues ($mill) A	**3300**
52.1	71.1	82.3	103.0	132.4	153.0	193.0	212.0	211.0	207.6	**155**	**160**	Net Profit ($mill)	**180**
33.1%	34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	37.6%	40.5%	**35.0%**	**38.0%**	Income Tax Rate	**38.0%**
4.9%	11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	8.5%	7.4%	**8.4%**	**8.4%**	Net Profit Margin	**8.5%**
45.3%	45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	50.2%	50.3%	**48.0%**	**45.0%**	Long-Term Debt Ratio	**43.0%**
49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	49.8%	49.7%	**52.0%**	**55.0%**	Common Equity Ratio	**57.0%**
1345.8	1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	**3475**	**3350**	Total Capital ($mill)	**3500**
1598.9	1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	3566.0	3816.0	**4000**	**4150**	Net Plant ($mill)	**4400**
5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	**7.5%**	**8.0%**	Return on Total Cap'l	**9.0%**
7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	**11.5%**	**12.5%**	Return on Shr. Equity	**14.0%**
7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	**11.5%**	**12.5%**	Return on Com Equity	**14.0%**
NMF	3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	**4.0%**	**5.0%**	Retained to Com Eq	**6.0%**
101%	72%	65%	52%	53%	49%	52%	52%	58%	60%	**64%**	**60%**	All Div'ds to Net Prof	**57%**

CAPITAL STRUCTURE as of 6/30/09
Total Debt $2093.0 mill. **Due in 5 Yrs** $962.0 mill.
LT Debt $1675.0 mill. **LT Interest** $90.0 mill.
(Total interest coverage: 3.9x)

Leases, Uncapitalized Annual rentals $30.0 mill.
Pension Assets-12/08 $242.0 mill. **Oblig.** $442.0 mill.

Pfd Stock None

Common Stock 77,278,942 shs.
as of 7/24/09
MARKET CAP: $2.6 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	21.0	16.0	12.0
Other	1790.0	2026.0	1304.0
Current Assets	1811.0	2042.0	1316.0
Accts Payable	172.0	202.0	167.0
Debt Due	580.0	866.0	418.0
Other	893.0	915.0	696.0
Current Liab.	1645.0	1983.0	1281.0
Fix. Chg. Cov.	391%	416%	527%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	4.0%	15.5%	2.0%
"Cash Flow"	6.0%	6.5%	2.5%
Earnings	7.0%	8.5%	3.5%
Dividends	4.0%	8.0%	2.5%
Book Value	7.0%	10.0%	1.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1044	436	434	707	2621
2007	973	467	369	685	2494
2008	1012	444	539	805	2800
2009	995	377	**440**	**698**	**2510**
2010	**1020**	**450**	**480**	**775**	**2725**

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.41	.25	.46	.60	2.72
2007	1.29	.40	.17	.86	2.72
2008	1.16	.30	.28	.97	2.71
2009	1.55	.26	**.20**	**.69**	**2.70**
2010	**1.40**	**.30**	**.30**	**.90**	**2.90**

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.31	.31	.31	.37	1.30
2006	.37	.37	.37	.37	1.48
2007	.41	.41	.41	.41	1.64
2008	.42	.42	.42	.42	1.68
2009	.43	.43	.43		

BUSINESS: AGL Resources Inc. is a public utility holding company. *Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas and Virginia Natural Gas.* The utilities have more than 2.2 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in non-regulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 7.7% of common stock; off./dir., less than 1.0% (3/09 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

We do not expect 2009 to be a banner year for AGL Resources. The company reported healthy results in the first quarter. However, performance was less favorable in the recent interim. The Wholesale services business posted an operating loss of $11 million, while the Retail Energy Operations and Energy Investments units reported lower earnings. On the bright side, the Distribution Operations business posted moderate growth in operating earnings. This was primarily due to higher fees to marketers in Georgia for the storage of natural gas inventory and greater pipeline replacement revenues at Atlanta Gas Light. Overall, revenues and share earnings declined in the June period. Looking forward, comparisons will likely also prove unfavorable for the second half of the year. Thus, we anticipate lower revenues and relatively flat share earnings for full-year 2009.

Subsidiary Atlanta Gas Light has announced a system infrastructure investment project. This $400 million program will be completed over a 10-year period. Infrastructure improvements include upgrading the utility's distribution system and its liquefied natural gas facilities. This project will improve system reliability, increase operational flexibility, and allow Atlanta Gas Light to meet its forecasted growth objectives.

Elizabethtown Gas has modified its rate case filing. It had originally requested a $25 million rate hike, but has since lowered this amount to $17 million. The proposed increase would become effective at the beginning of 2010. Meanwhile, Atlanta Gas Light has requested to postpone a rate case filing, which had originally been scheduled for November 1st of this year. However, it does plan to file sometime after that (June 1, 2010 at the latest). Virginia Natural Gas and Chattanooga Gas also intend to file rate cases in 2010.

We anticipate higher revenues and share earnings at the company by 2012-2014, on better operating conditions. Moreover, AGL has a healthy dividend yield and earns high marks for Safety, Price Stability, and Earnings Predictability. From the present quotation, **this issue features decent risk-adjusted total return potential.**

Michael Napoli, CPA *September 11, 2009*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07); '08, $0.13. Next earnings report due late October. (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available. (D) Includes intangibles. In 2008: $418 million, $5.44/share.
(E) In millions.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	90

ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE	27.06	P/E RATIO	12.1 (Trailing: 11.9 Median: 16.0)	RELATIVE P/E RATIO	0.75	DIV'D YLD	5.0%	VALUE LINE

TIMELINESS 3 Lowered 9/11/09

SAFETY 2 Raised 12/16/05

TECHNICAL 4 Lowered 9/4/09

BETA .65 (1.00 = Market)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	32.3	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5	29.3	28.6
Low:	24.8	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5	23.9	19.7	20.1

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

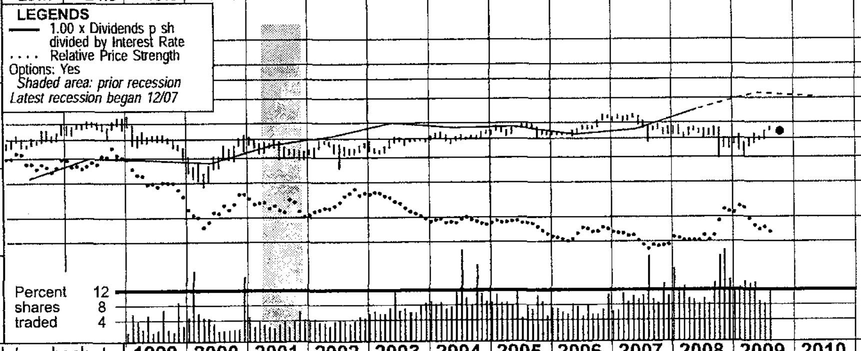
	Price	Gain	Ann'l Total Return
High	40	(+50%)	14%
Low	30	(+10%)	7%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	0	0	0	1	0	0	0
Options	0	0	0	0	1	0	0	0	0
to Sell	0	1	1	0	1	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	141	108	107
to Sell	103	122	115
Hld's(000)	53678	53874	54285



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	4.3	-4.4
3 yr.	9.1	0.4
5 yr.	36.1	32.3

Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
22.09	26.61	35.36	22.82	54.39	46.50	61.75	75.27	66.03	79.52	***54.25***	***68.45***	Revenues per sh A	***86.35***
2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.19	***4.40***	***4.55***	"Cash Flow" per sh	***4.80***
.81	1.03	1.47	1.45	1.71	1.58	1.72	2.00	1.94	2.00	***2.10***	***2.20***	Earnings per sh A B	***2.50***
1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	***1.32***	***1.34***	Div'ds Decl'd per sh C ■	***1.40***
3.53	2.36	2.77	3.17	3.10	3.03	4.14	5.20	4.39	5.20	***5.50***	***5.75***	Cap'l Spending per sh	***6.60***
12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.01	22.60	***24.10***	***24.40***	Book Value per sh	***26.90***
31.25	31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.33	90.81	***92.50***	***93.50***	Common Shs Outst'g D	***110.00***
33.0	18.9	15.6	15.2	13.4	15.9	16.1	13.5	15.9	13.6	*Bold figures are*	*Value Line estimates*	Avg Ann'l P/E Ratio	***14.0***
1.88	1.23	.80	.83	.76	.84	.86	.73	.84	.84			Relative P/E Ratio	***.95***
4.1%	5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%			Avg Ann'l Div'd Yield	***4.0%***
690.2	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	***5020***	***6400***	Revenues ($mill) A	***9500***
25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	180.3	***195***	***205***	Net Profit ($mill)	***275***
35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	***35.0%***	***37.0%***	Income Tax Rate	***40.5%***
3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	***3.9%***	***3.2%***	Net Profit Margin	***3.0%***
50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	***50.0%***	***50.5%***	Long-Term Debt Ratio	***49.0%***
50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	***50.0%***	***49.5%***	Common Equity Ratio	***51.0%***
755.1	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	***4430***	***4580***	Total Capital ($mill)	***5800***
965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	***4365***	***4575***	Net Plant ($mill)	***5850***
5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	***6.0%***	***6.0%***	Return on Total Cap'l	***6.0%***
6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	***9.0%***	***9.0%***	Return on Shr. Equity	***9.5%***
6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	***9.0%***	***9.0%***	Return on Com Equity	***9.5%***
NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	***3.5%***	***3.5%***	Retained to Com Eq	***4.0%***
NMF	112%	79%	82%	70%	77%	73%	63%	65%	65%	***63%***	***61%***	All Div'ds to Net Prof	***56%***

CAPITAL STRUCTURE as of 6/30/09
Total Debt $2169.5 mill. **Due in 5 Yrs** $1360.0 mill.
LT Debt $2169.4 mill. **LT Interest** $115.0 mill.
(LT interest earned: 2.9x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals $18.4 mill.
Pfd Stock None
Pension Assets-9/08 $341.4 mill. **Oblig.** $337.6 mill.
Common Stock 92,272,478 shs. as of 7/31/09
MARKET CAP: $2.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	60.7	46.7	125.7
Other	1008.2	1238.4	670.3
Current Assets	1068.9	1285.1	796.0
Accts Payable	355.3	395.4	222.0
Debt Due	154.4	351.3	.1
Other	410.0	460.4	422.2
Current Liab.	919.7	1207.1	644.3
Fix. Chg. Cov.	405%	450%	446%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	9.5%	14.5%	*3.0%*
"Cash Flow"	3.5%	5.5%	*2.5%*
Earnings	2.5%	5.0%	*4.0%*
Dividends	2.5%	1.5%	*1.5%*
Book Value	6.5%	7.5%	*4.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	2283.8	2033.8	863.2	971.6	6152.4
2007	1602.6	2075.6	1218.2	1002.0	5898.4
2008	1657.5	2484.0	1639.1	1440.7	7221.3
2009	1716.3	1821.4	780.8	***701.5***	***5020***
2010	***1465***	***2435***	***1345***	***1155***	***6400***

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	.88	1.10	d.22	.25	2.00
2007	.97	1.20	d.15	d.05	1.94
2008	.82	1.24	d.07	.02	2.00
2009	.83	1.29	.02	***d.04***	***2.10***
2010	***.90***	***1.35***	***d.04***	***d.01***	***2.20***

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.31	.31	.31	.315	1.25
2006	.315	.315	.315	.32	1.27
2007	.32	.32	.32	.325	1.29
2008	.325	.325	.325	.33	1.31
2009	.33	.33	.33		

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to 3.2 million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2008 gas volumes: 293 MMcf. Breakdown: 56%, residential; 32%, commercial; 7%, industrial; and 5% other. 2008 depreciation rate 3.5%. Has around 4,560 employees. Officers and directors own approximately 1.9% of common stock (12/08 Proxy). Chairman and Chief Executive Officer: Robert W. Best. Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

Atmos Energy's core natural gas utility has generated healthy earnings of late. That is largely because of an increase in rates, primarily for the Mid-Tex, Louisiana, and West Texas divisions. But *throughput* is being constrained some by diminished consumption from residential and commercial customers (reflecting difficult economic conditions).

The pipeline and storage, and regulated transmission and storage units are performing nicely, as well. The former segment is enjoying expanded margins arising from gains from the settlement of financial positions associated with storage and trading activities. Meanwhile, results for the regulated transmission and storage operation are being boosted by higher transportation fees on through-system deliveries, due to favorable market conditions.

It appears that consolidated share net will advance around 5%, to $2.10, in fiscal 2009 (which ends September 30th). Assuming further expansion in operating margins, *the bottom line may increase at a similar rate, to $2.20 a share, the following fiscal year.*

Finances are in order. An acquisition caused a mid-decade rise in the debt ratio. But the company has whittled that figure back to normal, if at the cost of some dilution from stock issuances. A reduced level of uncollectible accounts, owing to lower gas prices, is another plus these days.

We believe that more steady, though unexciting, profit growth is in store for the company over the next 3 to 5 years. The utility is one of the country's biggest natural gas-only distributors, currently serving customers across 12 states. What is more, the unregulated segments, especially pipelines, possess healthy overall prospects. Excluding future acquisitions, annual share-net gains may be in the mid-single-digit range over 2012-2014.

On a risk-adjusted basis, these good-quality shares offer decent total return potential. The dividend yield is appealing, compared to others in the *Value Line* Natural Gas Utility universe. Future hikes in the payout, though likely to be gradual, as in previous years, should be well covered by earnings. Meanwhile, the stock is ranked 3 (Average) for Timeliness.

Frederick L. Harris, III September 11, 2009

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '99, d23¢; '00, 12¢; '03, d17¢; '06, d18¢; '07, d2¢; Q2 '09, 12¢. Next egs. rpt. due early Nov. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	85

LACLEDE GROUP NYSE-LG

RECENT PRICE	32.61	P/E RATIO	13.8 (Trailing: 10.9 / Median: 15.0)	RELATIVE P/E RATIO	0.86	DIV'D YLD	4.8%	VALUE LINE

TIMELINESS 3 Lowered 5/22/09
SAFETY 2 Raised 6/20/03
TECHNICAL 5 Lowered 9/4/09
BETA .60 (1.00 = Market)

High:	27.9	27.0	24.8	25.5	25.0	30.0	32.5	34.3	37.5	36.0	55.8	48.3	
Low:	22.4	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1	28.8	31.9	29.3	

Target Price Range
2012 | 2013 | 2014

2012-14 PROJECTIONS

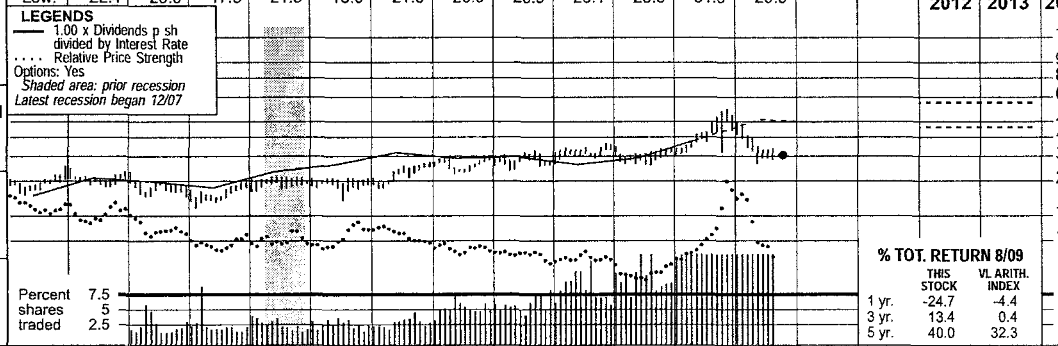
	Price	Gain	Ann'l Total Return
High	60	(+85%)	19%
Low	45	(+40%)	12%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	2	1
Options	0	6	0	0	0	0	0	0	0
to Sell	0	6	0	0	0	0	0	1	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	73	70	71
to Sell	86	81	81
Hld's(000)	11494	11043	10569



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-24.7	-4.4
3 yr.	13.4	0.4
5 yr.	40.0	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	*88.90*	*91.30*	Revenues per sh	*111.55*
2.81	2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	4.22	*4.90*	*4.50*	"Cash Flow" per sh	*5.40*
1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	2.64	*2.95*	*2.60*	Earnings per sh A B	*3.00*
1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	1.49	*1.53*	*1.57*	Div'ds Decl'd per sh C ■	*1.70*
2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	2.57	*2.55*	*2.60*	Cap'l Spending per sh	*3.40*
12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	22.12	*23.65*	*23.55*	Book Value per sh D	*28.05*
15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	21.99	*22.50*	*23.00*	Common Shs Outst'g E	*26.00*
13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	14.3	*Bold figures are*		Avg Ann'l P/E Ratio	*17.5*
.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.89	*Value Line*		Relative P/E Ratio	*1.15*
5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	3.9%	*estimates*		Avg Ann'l Div'd Yield	*3.2%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $522.2 mill. Due in 5 Yrs $90.0 mill.
LT Debt $389.2 mill. LT Interest $25.0 mill.
(Total interest coverage: 3.0x)

Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-9/08 $248.3 mill. Oblig. $308.7 mill.
Pfd Stock None
Common Stock 22,167,303 shs. as of 7/31/09

MARKET CAP: $725 million (Small Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	*2000*	*2100*	Revenues ($mill) A	*2900*
26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	49.8	57.6	*65.0*	*60.0*	Net Profit ($mill)	*80.0*
35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	*35.5%*	*35.0%*	Income Tax Rate	*35.0%*
5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.5%	2.6%	*3.3%*	*2.9%*	Net Profit Margin	*2.8%*
41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	44.4%	*42.5%*	*45.0%*	Long-Term Debt Ratio	*47.0%*
57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	*57.5%*	*55.0%*	Common Equity Ratio	*53.0%*
488.6	519.2	574.1	546.6	605.0	737.4	707.9	798.9	784.5	876.1	*925*	*985*	Total Capital ($mill)	*1375*
519.4	575.4	602.5	594.4	621.2	646.9	679.5	763.8	793.8	823.2	*865*	*915*	Net Plant ($mill)	*1250*
7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	8.1%	*8.5%*	*7.5%*	Return on Total Cap'l	*7.0%*
9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	11.8%	*12.0%*	*11.0%*	Return on Shr. Equity	*11.0%*
9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	11.8%	*12.0%*	*11.0%*	Return on Com Equity	*11.0%*
1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	5.2%	*6.0%*	*4.5%*	Retained to Com Eq	*5.0%*
89%	98%	83%	113%	74%	73%	72%	59%	63%	56%	*53%*	*60%*	All Div'ds to Net Prof	*55%*

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	52.7	14.9	89.1
Other	414.6	547.0	283.6
Current Assets	467.3	561.9	372.7
Accts Payable	106.8	159.6	79.3
Debt Due	251.6	216.1	133.0
Other	115.3	103.5	87.8
Current Liab.	473.7	479.2	300.1
Fix. Chg. Cov.	282%	377%	370%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	11.5%	14.0%	2.5%
"Cash Flow"	2.0%	6.5%	5.5%
Earnings	3.5%	9.5%	3.5%
Dividends	1.0%	1.5%	2.5%
Book Value	3.5%	5.5%	5.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	689.2	708.8	330.6	269.0	1997.6
2007	539.6	700.8	457.9	323.3	2021.6
2008	504.0	747.7	505.5	451.8	2209.0
2009	674.3	659.1	309.9	*356.7*	*2000*
2010	*530*	*570*	*520*	*480*	*2100*

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	1.23	1.05	.13	d.04	2.37
2007	.89	.97	.43	.03	2.31
2008	.99	1.39	.41	d.14	2.64
2009	1.42	1.40	.31	*d.18*	*2.95*
2010	*1.03*	*1.21*	*.38*	*d.02*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.34	.345	.345	.345	1.38
2006	.345	.355	.355	.355	1.41
2007	.365	.365	.365	.365	1.46
2008	.375	.375	.375	.375	1.50
2009	.385	.385	.385		

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 630,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2008: 1.08 mill. Revenue mix for regulated operations: residential, 62%; commercial and industrial, 24%; transportation, 1%; other, 13%. Has around 1,807 employees. Officers and directors own approximately 7.2% of common shares (1/09 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

It appears that Laclede Group will generate record earnings in fiscal 2009, which ends on September 30th. The non-regulated gas marketing unit, Laclede Energy Resources, is enjoying a healthy rise in volumes. That has been brought about by significantly increased pipeline capacity and expanded margins on sales of natural gas (reflecting a drop in natural gas prices). Unfortunately, the utility, Laclede Gas, has not performed up to par of late, stemming partly from a rise in operational expenses. Furthermore, last year's results included certain previously unrecognized tax benefits (which amounted to about $0.07 a share). Nevertheless, consolidated share net may well advance about 12%, to $2.95 a share, in fiscal 2009.

But fiscal 2010 may be a down year, when measured against the strong profits we anticipate for this year. Moreover, the benefit of sharply lower natural gas prices may not be repeatable.

The company's 3- to 5-year prospects look unspectacular. Annual customer growth for the natural gas distribution unit has been only around 1% for some time, and it appears that trend will continue. This is because the service territory, based in eastern Missouri, is in a mature phase. Laclede Energy Resources has promising expansion possibilities, given its proximity to existing and planned pipelines, as well as opportunities from shale development. But that segment has contributed just a small portion to total profits on a historical basis. A major acquisition could help to offset this, but it appears that such plans are not on management's agenda at this juncture. Consequently, annual earnings-per-share growth could range only between 4% and 5% out to 2012-2014.

Income-oriented accounts may find the dividend yield modestly appealing. Further increases in the payout will probably be gradual, however. That is largely because of Laclede Gas' unexciting expansion prospects.

Total return potential over the 3- to 5-year horizon looks unexciting, based on the stock's current quotation and assuming minimal growth in the distribution.

Frederick L. Harris, III September 11, 2009

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Excludes gain from discontinued operations: '08, 94¢. Next earnings report due late Oct. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Incl. deferred charges. In '08: $340.4 mill., $15.48/sh.
(E) In millions.
(F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	85

NEW JERSEY RES. NYSE-NJR

RECENT PRICE **36.60** | P/E RATIO **14.2** (Trailing: 17.3 / Median: 15.0) | RELATIVE P/E RATIO **0.88** | DIV'D YLD **3.4%** | **VALUE LINE**

TIMELINESS **3** Lowered 5/22/09
SAFETY **1** Raised 9/15/06
TECHNICAL **5** Lowered 9/11/09
BETA .65 (1.00 = Market)

High:	17.9	18.3	19.8	21.7	22.4	26.4	29.7	32.9	35.4	37.6	41.1	42.4			Target Price Range		
Low:	14.0	14.9	16.1	16.6	16.2	20.0	24.3	27.1	27.7	30.3	24.6	30.0			2012	2013	2014

2012-14 PROJECTIONS

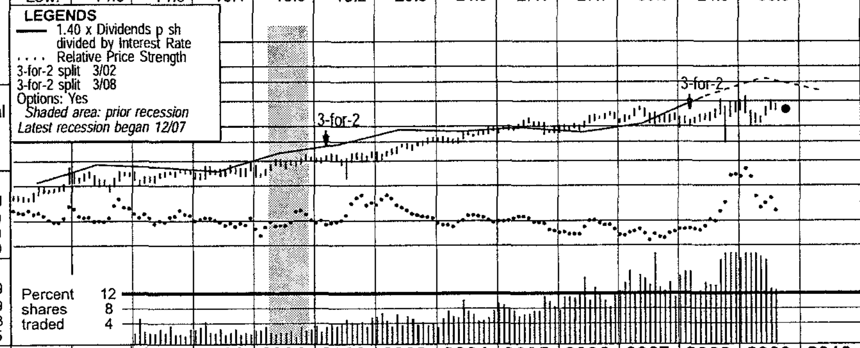
	Price	Gain	Ann'l Total Return
High	45	(+25%)	8%
Low	35	(-5%)	2%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	1	0
Options	1	2	3	0	0	1	0	0	0
to Sell	0	1	4	0	1	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	93	87	89
to Sell	73	88	88
Hld's(000)	24319	23324	24695



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	5.2	-4.4
3 yr.	22.5	0.4
5 yr.	58.6	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
12.02	12.81	11.36	13.48	17.31	17.73	22.65	29.42	51.22	44.11	62.29	60.89	76.19	79.63	72.62	90.74	*65.90*	*81.40*	Revenues per sh A	*85.00*
1.42	1.54	1.42	1.48	1.63	1.74	1.86	1.99	2.12	2.14	2.38	2.50	2.62	2.73	2.44	3.62	*3.35*	*3.60*	"Cash Flow" per sh	*3.70*
.76	.84	.86	.92	.99	1.04	1.11	1.20	1.30	1.39	1.59	1.70	1.77	1.87	1.55	2.70	*2.45*	*2.70*	Earnings per sh B	*2.80*
.68	.68	.68	.69	.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	*1.24*	*1.28*	Div'ds Decl'd per sh C■	*1.40*
1.54	1.40	1.18	1.19	1.15	1.07	1.21	1.23	1.10	1.02	1.14	1.45	1.28	1.28	1.46	1.72	*1.75*	*1.75*	Cap'l Spending per sh	*1.80*
6.54	6.43	6.47	6.73	6.92	7.26	7.57	8.29	8.80	8.71	10.26	11.25	10.60	15.00	15.50	17.28	*18.80*	*20.75*	Book Value per sh D	*27.45*
37.84	38.93	40.03	40.69	40.23	40.07	39.92	39.59	40.00	41.50	40.85	41.61	41.32	41.44	41.61	42.06	*42.50*	*43.00*	Common Shs Outst'g E	*45.00*
15.1	13.0	11.8	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0	15.3	16.8	16.1	21.6	12.3	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.89	.85	.79	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.15	.77	*Value Line*		Relative P/E Ratio	*.95*
5.8%	6.2%	6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%	3.3%	3.1%	3.2%	3.0%	3.3%	*estimates*		Avg Ann'l Div'd Yield	*3.6%*
						904.3	1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3299.6	3021.8	3816.2	*2800*	*3500*	Revenues ($mill) A	*3825*
						44.9	47.9	52.3	56.8	65.4	71.6	74.4	78.5	65.3	113.9	*80.0*	*105*	Net Profit ($mill)	*125*
						36.2%	37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	38.9%	38.8%	37.8%	*39.0%*	*39.0%*	Income Tax Rate	*40.0%*
						5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	2.2%	3.0%	*3.7%*	*3.3%*	Net Profit Margin	*3.3%*
						48.7%	47.0%	50.1%	50.6%	38.1%	40.3%	42.0%	34.8%	37.3%	38.5%	*38.5%*	*37.0%*	Long-Term Debt Ratio	*32.0%*
						51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	65.2%	62.7%	61.5%	*61.5%*	*63.0%*	Common Equity Ratio	*68.0%*
						590.4	620.1	706.2	732.4	676.8	783.8	755.3	954.0	1028.0	1182.1	*1300*	*1415*	Total Capital ($mill)	*1815*
						705.4	730.6	743.9	756.4	852.6	880.4	905.1	934.9	970.9	1017.3	*1040*	*1060*	Net Plant ($mill)	*1125*
						9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	9.6%	7.7%	10.7%	*9.0%*	*9.0%*	Return on Total Cap'l	*8.0%*
						14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	*13.0%*	*13.0%*	Return on Shr. Equity	*10.0%*
						14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	*13.0%*	*13.0%*	Return on Com Equity	*10.0%*
						5.0%	5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	6.3%	3.6%	9.5%	*6.5%*	*7.0%*	Retained to Com Eq	*5.0%*
						67%	63%	59%	56%	51%	49%	50%	50%	64%	40%	*50%*	*47%*	All Div'ds to Net Prof	*50*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $512.3 mill. **Due in 5 Yrs** $175.6 mill.
LT Debt $457.7 mill. **LT Interest** $16.9 mill.
Incl. $8.8 mill. capitalized leases.
(LT interest earned: 4.8x; total interest coverage: 4.8x)
Pension Assets-9/08 $80.6 mill. **Oblig.** $102.4 mill.

Pfd Stock None

Common Stock 42,014,773 shs. as of 8/4/09
MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	5.1	42.6	77.0
Other	794.8	1067.1	636.5
Current Assets	799.9	1109.7	713.5
Accts Payable	64.4	61.7	49.2
Debt Due	260.8	238.3	54.6
Other	378.1	594.0	475.9
Current Liab.	703.3	894.0	579.7
Fix. Chg. Cov.	461%	450%	450%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	17.5%	9.0%	1.0%
"Cash Flow"	6.0%	6.0%	4.0%
Earnings	7.5%	7.5%	5.5%
Dividends	4.0%	5.0%	5.5%
Book Value	8.5%	11.5%	9.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	1164	1064	536.1	535.5	3299.6
2007	737.4	1029	662.2	593.2	3021.8
2008	811.1	1178	1000	827.1	3816.2
2009	801.3	937.5	441.1	*620.1*	*2800*
2010	*845*	*985*	*790*	*880*	*3500*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	.82	1.43	d.09	d.29	1.87
2007	.70	.19	.60	.06	1.55F
2008	1.31	1.86	d.10	d.39	2.70
2009	.77	1.71	.03	*d.06*	*2.45*
2010	*.85*	*1.75*	*d.05*	*.15*	*2.70*

Cal-endar	QUARTERLY DIVIDENDS PAID C E■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.227	.227	.227	.227	.91
2006	.24	.24	.24	.24	.96
2007	.253	.253	.253	.253	1.01
2008	.267	.28	.28	.28	1.11
2009	.31	.31	.31		

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 484,000 customers at 9/30/08 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2008 volume: 99.6 bill. cu. ft. (59% firm, 6% interruptible industrial and electric utility, 35% off-system and capacity release). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2008 dep. rate: 2.9%. Has 854 empls. Off./dir. own about 1.7% of common (12/09 Proxy). Chrmn., CEO, & Pres. : Laurence M. Downes. Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

New Jersey Resources' bottom line has been improving despite weaker top-line results. All of the company's operating segments registered lower volumes during the June period. The NJR Energy Services unit, which typically contributes the lion's share of revenues, was hit the hardest on both a dollar-value and percentage basis. Meantime, the Natural Gas Distribution and Retail segments also registered declines well into the double digits. The bulk of that downturn can be attributed to the lower commodity prices compared to last year, and conservation efforts, as consumers continue to real in spending. Still, the customer base continues to widen. The New Jersey Natural Gas division has added almost 4,200 new customer accounts thus far in 2009 and completed more than 450 natural gas heat conversions. All told, the company registered higher-than-expected earnings for the June interim. But,

We do look for September's share net to fall into negative territory. The anticipated loss during the fiscal fourth quarter is related to the seasonal nature of the natural gas business. Nonetheless, economic headwinds have prompted us to trim a nickel off our 2009 earnings estimate to $2.45 a share. This would represent a decline of about 9%. However, we view this largely as a technicality, due to last year's difficult comparison and the fact that NJR continues to improve the fundamentals of its business through the expansion of its mid-stream assets and an ever-widening customer base.

Capital projects and infrastructure programs augur well for longer-term prospects. The Steckman Ridge storage facility has begun accumulating natural gas inventories in preparation for the coming winter. That facility is expected to start making meaningful earnings contributions next year. And the other programs should provide needed jobs, while simultaneously boosting the safety and reliability of the distribution system.

These high-quality shares may appeal to income-oriented accounts. They don't stand out for appreciation potential for the pull to 2012-2014, compared to most utilities. The main appeal here comes from solid dividend growth prospects.

Bryan J. Fong *September 11, 2009*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qtly egs may not sum to total due to change in shares outstanding. Next earnings report due late Oct.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2008: $340.7 million, $8.09/share.
(E) In millions, adjusted for splits.
(F) Restated.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	45

NICOR, INC. NYSE-GAS

RECENT PRICE **35.65** | P/E RATIO **13.5** (Trailing: 14.0 / Median: 15.0) | RELATIVE P/E RATIO **0.84** | DIV'D YLD **5.2%** | VALUE LINE

TIMELINESS 3 Raised 12/7/07
SAFETY 3 Lowered 6/17/05
TECHNICAL 4 Lowered 9/4/09
BETA .70 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9	53.7	52.0	38.1
Low:	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7	37.8	32.3	27.5

2012-14 PROJECTIONS

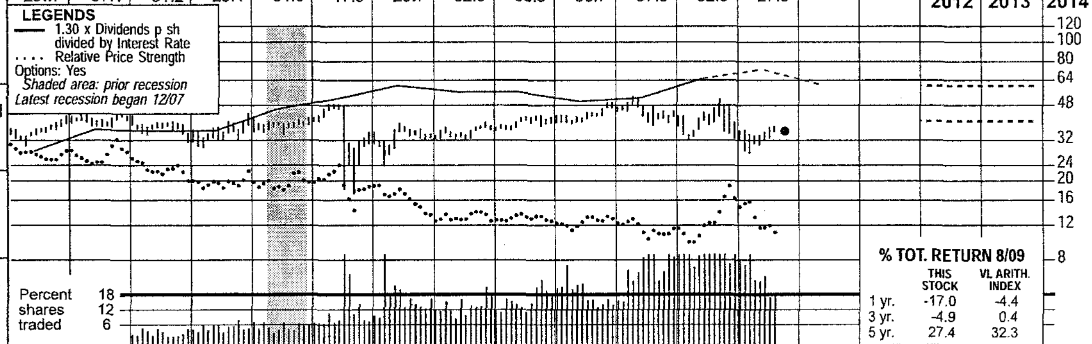
	Price	Gain	Ann'l Total Return
High	60	(+70%)	17%
Low	40	(+10%)	7%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	1	2	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	114	92	105
to Sell	126	126	103
Hld's(000)	27287	25772	25968



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-17.0	-4.4
3 yr.	-4.9	0.4
5 yr.	27.4	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	65.92	69.20	83.68	70.90	72.90	Revenues per sh	93.30
3.80	4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.82	6.96	6.85	6.05	6.70	"Cash Flow" per sh	7.85
1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.87	2.99	2.63	2.55	2.85	Earnings per sh A	3.25
1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	1.86	1.86	1.86	1.86	Div'ds Decl'd per sh B■	1.86
2.62	3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.17	3.77	5.54	5.95	6.35	Cap'l Spending per sh	6.80
13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	19.43	20.58	21.55	22.10	23.10	Book Value per sh	26.80
53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.90	45.90	45.13	45.50	45.50	Common Shs Outst'g C	45.50
14.1	12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	17.3	15.0	15.0	15.1	Bold figures are		Avg Ann'l P/E Ratio	16.0
.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	.80	.93	Value Line		Relative P/E Ratio	1.05
4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%	4.3%	4.2%	4.7%	estimates		Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 6/30/09
Total Debt $725.7 mill. Due in 5 Yrs $914.9 mill.
LT Debt $498.7 mill. LT Interest $5.0 mill.
(Total interest coverage: 5.1x)

Pension Assets-12/08 $306.6 mill. Oblig. $270.2 mill.

Pfd Stock $.6 mill. Pfd Div'd None

Common Stock 45,221,593 shares as of 7/24/09
MARKET CAP: $1.6 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	3176.3	3776.6	3225	3500	Revenues ($mill)	4200
121.9	136.4	136.3	128.0	93.1	98.1	101.1	128.3	135.2	119.5	115	130	Net Profit ($mill)	150
34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	26.6%	27.0%	27.0%	27.0%	Income Tax Rate	27.0%
7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	4.3%	3.2%	3.6%	3.7%	Net Profit Margin	3.5%
35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	30.9%	31.5%	33%	30%	Long-Term Debt Ratio	26%
64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	69.0%	68.4%	67%	70%	Common Equity Ratio	74%
1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	1368.0	1421.1	1500	1500	Total Capital ($mill)	1650
1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	2757.3	2858.6	3000	3150	Net Plant ($mill)	3600
10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	11.2%	9.7%	9.0%	10.0%	Return on Total Cap'l	10.0%
15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	11.5%	12.5%	Return on Shr. Equity	12.0%
15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	11.5%	12.5%	Return on Com Equity	12.0%
6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	5.4%	3.6%	3.0%	4.5%	Retained to Com Eq	5.5%
60%	56%	58%	63%	88%	84%	81%	65%	62%	71%	70%	65%	All Div's to Net Prof	57%

CURRENT POSITION ($MILL.)

	2007	2008	6/30/09
Cash Assets	91.9	95.5	116.3
Other	931.9	1243.4	627.0
Current Assets	1023.8	1338.9	743.3
Accts Payable	564.5	411.3	266.1
Debt Due	350.0	789.9	227.0
Other	227.9	466.8	482.9
Current Liab.	1142.4	1668.0	976.0
Fix. Chg. Cov.	543%	461%	449%

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	7.0%	6.5%	4.0%
"Cash Flow"	3.0%	3.0%	2.0%
Earnings	1.5%	1.0%	2.5%
Dividends	3.0%	0.5%	Nil
Book Value	3.0%	4.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1319.4	451.3	351.1	838.2	2960.0
2007	1334.7	556.9	365.2	919.5	3176.3
2008	1595.7	699.8	440.3	1040.8	3776.6
2009	1110.8	447.6	375	1291.6	3225
2010	1150	625	425	1300	3500

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.99	.19	.39	1.30	2.87
2007	1.04	.40	.32	1.22	2.98
2008	.91	.64	.03	1.05	2.63
2009	.96	.50	.05	1.04	2.55
2010	1.05	.50	.30	1.00	2.85

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.465	.465	.465	.465	1.86
2006	.465	.465	.465	.465	1.86
2007	.465	.465	.465	.465	1.86
2008	.465	.465	.465	.465	1.86
2009	.465	.465	.465		

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.2 million customers in northern and western Illinois. 2008 gas delivered: 498.1 Bcf, incl. 222.6 Bcf from transportation. 2008 gas sales (275.5 bcf): residential, 93%; commercial, 6%; industrial, 1%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested oil and gas E&P, 6/93. Has about 3,900 employees. Officers/directors own about 2.2% of common stock (3/09 proxy). Chairman and Chief Executive Officer: Russ Strobel. Incorporated: Illinois. Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Nicor posted mixed results in the second quarter. Both the top and bottom lines fell short of 2008's results due to the challenging macroeconomic environment and lower energy prices. Furthermore, sales of $447.6 million missed our estimate in June ($600 million). However, earnings of $0.50 a share topped our number, thanks to new rates in the natural gas distribution business (discussed below), which offset unfavorable pricing and a weak showing in the shipping operations.

We have lowered our bottom-line estimate for 2009 by a dime, to $2.55 a share. Management reaffirmed its share-net guidance range of $2.54 to $2.74. However, we have pared our target to the low end of management's range, given the tough market conditions for natural gas producers. Most notably, lower usage, coupled with unfavorable pricing, will probably continue to pressure these utilities over the coming months. Therefore, we look for the top line to decline 15% to $3.2 million.

The company requested a rehearing on its rate case. Nicor was approved for a $69 million increase in base revenues at the end of the March period. However, the company is awaiting a decision from the Illinois Commerce Commission regarding a rehearing. Nicor is seeking greater relief than what was approved.

This equity offers a yield that is above average for a natural gas utility. Nicor continues to pay a hearty dividend despite the challenging operating environment. What's more, we think the payout is safe, thanks to the company's strong balance sheet. Thus, income-oriented investors may find this equity's attractive yield (5.2%) of interest.

Shares of Nicor are ranked to mirror the broader market averages over the next six to 12 months, as near-term prospects appear to be limited. Moreover, at the current quotation, this issue has below-average total return potential over the 3- to 5-year pull. Therefore, we recommend most investors look elsewhere. However, risk-averse investors should note this equity is well positioned to weather any volatility (Beta: 70) over the coming years, given its strong finances and stable business (Financial Strength: A).

Richard Gallagher *September 11, 2009*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢); '07 (13¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Next egs. report due early November.
(B) Dividends historically paid mid February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	80

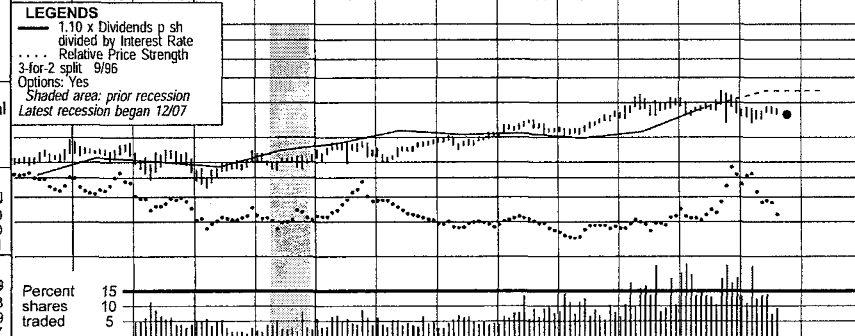
N.W. NAT'L GAS NYSE-NWN

RECENT PRICE **41.94** | P/E RATIO **14.7** (Trailing: 15.5 Median: 16.0) | RELATIVE P/E RATIO **0.91** | DIV'D YLD **4.0%** | VALUE LINE

TIMELINESS **3** Lowered 7/24/09
SAFETY **1** Raised 3/18/05
TECHNICAL **4** Lowered 9/4/09
BETA .60 (1.00 = Market)

High:	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8	55.2	46.1
Low:	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8	37.7	37.7

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 9/96
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



Target Price Range: 2012 | 2013 | 2014 — 120, 100, 80, 64, 48, 32, 24, 20, 16, 12, 8

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+65%)	*16%*
Low	55	(+30%)	*10%*

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	2	0	0	0
Options	0	1	0	0	0	0	0	0	0
to Sell	0	2	0	1	0	0	0	1	1

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	82	67	78
to Sell	83	93	69
Hld's(000)	14907	15126	15387

Percent shares traded 15 / 10 / 5

% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-10.5	-4.4
3 yr.	21.8	0.4
5 yr.	63.1	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	39.13	39.16	*39.60*	*41.50*	Revenues per sh	*48.20*
3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.76	5.41	5.31	*5.60*	*5.85*	"Cash Flow" per sh	*6.75*
1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	2.76	2.57	*2.85*	*2.85*	Earnings per sh A	*3.45*
1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.44	1.52	*1.60*	*1.68*	Div'ds Decl'd per sh B■	*2.00*
3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.48	3.92	*4.50*	*4.50*	Cap'l Spending per sh	*4.50*
13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.01	22.52	23.71	*24.90*	*26.10*	Book Value per sh	*30.50*
19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.24	26.41	26.50	*26.50*	*26.50*	Common Shs Outst'g C	*28.00*
12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	15.9	16.7	18.1	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.89	1.11	*Value Line*		Relative P/E Ratio	*1.20*
5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%	3.1%	3.3%	*estimates*		Avg Ann'l Div'd Yield	*3.2%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $677.6 mill. Due in 5 Yrs $173.8 mill.
LT Debt $587.0 mill. LT Interest $37.0 mill.

(Total interest coverage: 4.0x)

Pension Assets-12/08 $163 mill.
Oblig. $281 mill.
Pfd Stock None

Common Stock 26,513,188 shares as of 7/31/09
MARKET CAP $1.1 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
455.8	532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1033.2	1037.9	*1025*	*1125*	Revenues ($mill)	*1350*
44.9	47.8	50.2	43.8	46.0	50.6	58.1	65.2	74.5	68.5	*75.5*	*75.5*	Net Profit ($mill)	*96.5*
35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	36.9%	*37.0%*	*37.0%*	Income Tax Rate	*37.0%*
9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	6.6%	*7.3%*	*6.7%*	Net Profit Margin	*7.2%*
46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	44.9%	*47%*	*47%*	Long-Term Debt Ratio	*47%*
49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	55.1%	*53%*	*53%*	Common Equity Ratio	*53%*
861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1106.8	1140.4	*1180*	*1225*	Total Capital ($mill)	*1400*
895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1495.9	1549.1	*1600*	*1660*	Net Plant ($mill)	*1900*
6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.1%	8.5%	7.7%	*8.0%*	*8.0%*	Return on Total Cap'l	*8.0%*
9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	10.9%	*11.0%*	*11.0%*	Return on Shr. Equity	*11.0%*
9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	10.9%	*11.0%*	*11.0%*	Return on Com Equity	*11.0%*
2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	4.5%	*4.5%*	*4.5%*	Retained to Com Eq	*4.5%*
74%	70%	67%	79%	72%	69%	63%	59%	52%	59%	*56%*	*59%*	All Div'ds to Net Prof	*58%*

CURRENT POSITION ($MILL.)

	2007	2008	6/30/09
Cash Assets	6.1	6.9	31.1
Other	268.8	474.1	241.3
Current Assets	274.9	481.0	272.4
Accts Payable	119.7	94.4	50.1
Debt Due	148.1	248.0	90.6
Other	122.1	208.9	148.8
Current Liab.	389.9	551.3	289.5
Fx. Chg. Cov.	408%	393%	NMF

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	9.0%	9.0%	*4.0%*
"Cash Flow"	3.5%	6.5%	*4.5%*
Earnings	5.0%	8.0%	*5.0%*
Dividends	2.0%	3.0%	*5.5%*
Book Value	3.5%	3.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	390.4	171.0	114.9	336.9	1013.2
2007	394.1	183.2	124.2	331.7	1033.2
2008	387.7	191.3	109.7	349.2	1037.9
2009	437.4	149.4	*100*	*338.2*	*1025*
2010	*420*	*215*	*125*	*365*	*1125*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.48	.07	d.35	1.15	2.35
2007	1.77	.10	d.22	1.11	2.76
2008	1.62	.08	d.38	1.25	2.57
2009	1.72	.12	*d.31*	*1.32*	*2.85*
2010	*1.72*	*.11*	*d.33*	*1.35*	*2.85*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.325	.325	.325	.345	1.32
2006	.345	.345	.345	.355	1.39
2007	.355	.355	.355	.375	1.44
2008	.375	.375	.375	.395	1.52
2009	.395	.395	.395		

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 662,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 55%; commercial, 28%; industrial, gas transportation, and other, 17%. Employs 1,106. Barclays Global owns 6.6% of shares; officers and directors, 1.4% (4/09 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural's normal-looking first-half results contained some unusual elements. The company shares in either 20% or 10% of the difference between forecast natural gas costs and the actual outlays in Oregon. In this year's first half, very low gas prices led to an $11 million profit from the cost-sharing mechanism, versus a $6 million loss in the prior-year period. The profit, however, was partially offset by considerably higher operating and maintenance expenses, due partly to higher pension expense related to the decline in the stock market and bonuses due to the earnings gain. Meanwhile, the recession cost Northwest 3,000 customers in the June period, dropping its year-to-year customer increase to 0.8%.

Thus, we look for little earnings change through 2010. With natural gas prices likely to rise at least a bit next year, Northwest has opted to share in 10% of the difference between forecast and actual gas costs, likely reducing commodity cost effects. As gas prices are down, however, the company expects that residential rates will drop 15%-20% next year, raising the incentive to convert to gas heat. Moreover, the company plans to pare 50 to 100 jobs, adding to the 175 it eliminated in the last two years.

Northwest should benefit from a new union contract. Under the new five-year agreement, union members (about 60% of the workforce) received a 2.3% raise but will get just 1% more per year for years two through five, plus up to 2% for inflation. The company gains extra flexibility, and new hires will not be eligible for the defined benefit pension plan.

New projects could significantly boost earnings by the end of our time horizon. Northwest owns 75% of the Gill Ranch, CA gas storage project and will invest about $160 million in the project; it should contribute to the bottom line by 2011. The proposed Palomar pipeline would bring a second source of gas to the Portland area; its eastern section could come on line by 2013. NWN's investment would be around $200 million, plus an equal sum if the western half is built.

These top-quality shares offer decent total-return potential, suitable for conservative accounts.

Sigourney B. Romaine September 11, 2009

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06); '08, ($0.03); 1Q '09, 6¢. Next earnings report due early November.
(B) Dividends historically paid in mid-February, May, August, and November.
■ Dividend reinvestment plan available.
(C) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	90

PIEDMONT NAT'L. GAS NYSE-PNY

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
24.24	14.8	(Trailing: 15.6; Median: 18.0)	0.92	4.5%	VALUE LINE

TIMELINESS 3 Raised 6/15/07

SAFETY 2 New 7/27/90

TECHNICAL 4 Raised 7/17/09

BETA .65 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	18.1	18.3	19.7	19.0	19.0	22.0	24.3	25.8	28.4	28.0	35.3	32.0
Low:	13.9	14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	22.0	21.7	20.7

Target Price Range
2012 | 2013 | 2014

2012-14 PROJECTIONS

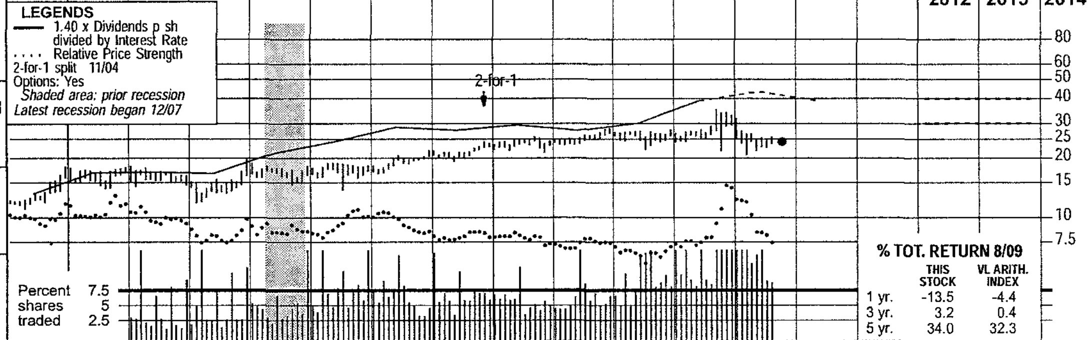
	Price	Gain	Ann'l Total Return
High	40	(+65%)	17%
Low	30	(+25%)	10%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	0	1	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	1	1	0	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	112	75	78
to Sell	93	123	96
Hld's(000)	33160	34611	33567



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-13.5	-4.4
3 yr.	3.2	0.4
5 yr.	34.0	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
10.57	10.82	8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	25.80	23.37	28.52	**26.45**	**27.25**	Revenues per sh A	**30.00**
1.14	1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.51	2.64	2.77	**2.85**	**2.95**	"Cash Flow" per sh	**3.15**
.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.27	1.40	1.49	**1.60**	**1.70**	Earnings per sh B	**1.90**
.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	**1.07**	**1.11**	Div'ds Decl'd per sh C■	**1.23**
1.58	1.95	1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.47	**2.40**	**2.10**	Cap'l Spending per sh	**2.25**
5.45	5.68	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	11.99	12.11	**12.70**	**13.25**	Book Value per sh D	**15.05**
52.30	53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.26	**73.50**	**73.50**	Common Shs Outst'g E	**73.00**
15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.2	18.7	18.2	*Bold figures are*		Avg Ann'l P/E Ratio	**18.0**
.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.15	*Value Line*		Relative P/E Ratio	**1.50**
4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	3.8%	*estimates*		Avg Ann'l Div'd Yield	**3.6%**

CAPITAL STRUCTURE as of 4/30/09
Total Debt $1029.0 mill. Due in 5 Yrs $150.0 mill.
LT Debt $793.5 mill. LT Interest $55.5 mill.
(LT interest earned: 4.0x; total interest coverage: 3.7x)

Pension Assets-10/08 $150.3 mill.
Oblig. $143.5 mill.

Pfd Stock None

Common Stock 72,959,779 shs.
as of 6/2/09

MARKET CAP: $1.8 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.7	1711.3	2089.1	**1945**	**2005**	Revenues ($mill) A	**2190**
58.2	64.0	65.5	62.2	74.4	95.2	101.3	97.2	104.4	110.0	**115**	**125**	Net Profit ($mill)	**140**
39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	34.2%	33.0%	36.4%	**35.0%**	**35.0%**	Income Tax Rate	**35.0%**
8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	6.1%	5.3%	**6.1%**	**6.3%**	Net Profit Margin	**6.4%**
46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	48.3%	48.4%	47.2%	**47.5%**	**48.0%**	Long-Term Debt Ratio	**47.0%**
53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	51.6%	52.8%	**52.5%**	**52.0%**	Common Equity Ratio	**53.0%**
914.7	978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1707.9	1703.3	1681.5	**1775**	**1875**	Total Capital ($mill)	**2075**
1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.3	2141.5	2240.8	**2250**	**2300**	Net Plant ($mill)	**2450**
8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.2%	7.8%	8.2%	**8.0%**	**8.0%**	Return on Total Cap'l	**8.0%**
11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	**12.5%**	**13.0%**	Return on Shr. Equity	**12.5%**
11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	**12.5%**	**13.0%**	Return on Com Equity	**12.5%**
3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	3.5%	3.9%	**4.0%**	**4.5%**	Retained to Com Eq	**4.5%**
72%	71%	75%	83%	74%	66%	68%	74%	70%	69%	**67%**	**65%**	All Div'ds to Net Prof	**65%**

CURRENT POSITION ($MILL.)	2007	2008	4/30/09
Cash Assets	7.5	7.0	20.7
Other	427.8	593.8	528.0
Current Assets	435.3	600.8	548.7
Accts Payable	143.6	132.3	94.0
Debt Due	195.0	436.5	235.5
Other	75.9	112.7	182.3
Current Liab.	424.5	681.5	511.8
Fix. Chg. Cov.	309%	341%	350%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	7.5%	10.0%	2.5%
"Cash Flow"	5.0%	7.0%	3.0%
Earnings	4.5%	6.5%	5.5%
Dividends	5.0%	4.5%	3.5%
Book Value	5.5%	6.0%	4.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2006	921.4	483.2	237.9	282.2	1924.7
2007	677.2	531.5	224.4	278.2	1711.3
2008	788.5	634.2	354.7	311.7	2089.1
2009	779.6	455.4	**372**	**338**	**1945**
2010	**790**	**470**	**390**	**355**	**2005**

Fiscal Year Ends	EARNINGS PER SHARE A B Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2006	.94	.57	d.16	d.08	1.27
2007	.94	.69	d.12	d.11	1.40
2008	1.12	.66	d.10	d.18	1.49
2009	1.10	.73	**d.10**	**d.13**	**1.60**
2010	**1.12**	**.75**	**d.08**	**d.09**	**1.70**

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24	.24	.95
2007	.24	.25	.25	.25	.99
2008	.25	.26	.26	.26	1.03
2009	.26	.27	.27		

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 935,724 customers in North Carolina, South Carolina, and Tennessee. 2008 revenue mix: residential (39%), commercial (24%), industrial (12%), other (25%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 73.5% of revenues. '08 deprec. rate: 3.2%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,833 employees. Officers & directors own about 1.1% of common stock (1/09 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Address: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas has posted a mixed bag of financial results thus far in 2009. Quarterly sales in the first half declined, year over year, as the weakened economy continued to weigh on both residential and commercial new construction activities. As a result, PNY's regulated utility segment has been experiencing declining customer growth compounded by rising conservation practices at existing accounts. Nonetheless, margins have been widening, thanks largely to lower natural gas costs, which have more than offset the rise in operating expenses. These trends resulted in a 10.6% hike in the April-period bottom line.

Meantime, slumping demand has put the brakes on many of the company's capital projects. Management has opted to defer its pipeline infrastructure enhancement plans that were scheduled to serve the new gas-fired power generation markets of North Carolina. Moreover, construction of the liquid natural gas storage facility in Robeson County, NC has also been put off. Current customer growth projections in that region indicate this facility may not be necessary for a few more years. As a result, PNY is holding off on construction until 2012, with a potential in-service date of 2015. These moves ought to help the company conserve cash at a time when rising accounts receivable and higher delinquencies are a distinct possibility.

Still, we have raised our earnings estimates for this year and next by a nickel. The main culprit for the disappointing 2009 revenues can be attributed to the slumping commodity prices. This trend masks Piedmont's continued customer growth, a figure that should register at about 1%-1.5% this year. Meantime, lower gas costs should continue to offset the margin tightening associated with diminished volumes. Consequently, annual earnings gains should persist.

These neutrally ranked shares have some appeal as an income vehicle. Recovery potential for the pull to 2012-2014 is about average for a utility. But the recent dividend hike, and relative stability provided by an ever-increasing customer base, shines a positive light on this good-quality stock.

Bryan J. Fong *September 11, 2009*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early Nov. Quarters may not add to total due to change in shares outstanding.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. In 2008: $16.3 million, 22¢/share.
(E) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	90

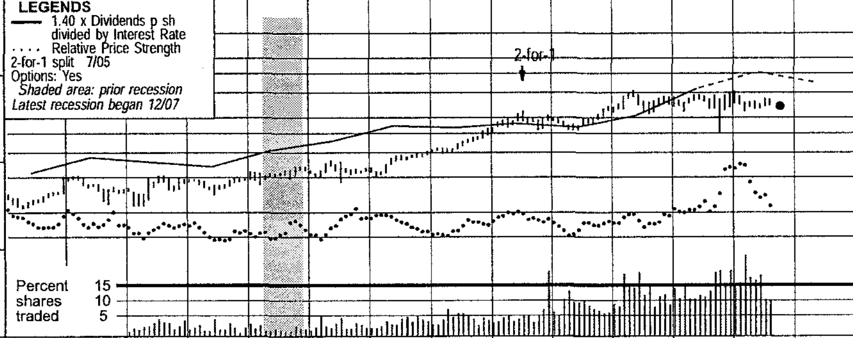
SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 34.29 | P/E RATIO 14.3 (Trailing: 14.8 / Median: 14.0) | RELATIVE P/E RATIO 0.89 | DIV'D YLD 3.6% | VALUE LINE

TIMELINESS 3 Lowered 8/14/09
SAFETY 2 Lowered 1/4/91
TECHNICAL 5 Lowered 9/11/09
BETA .65 (1.00 = Market)

															Target Price Range 2012 | 2013 | 2014
High:	15.4	15.4	15.1	17.0	18.3	20.3	26.5	32.4	34.3	41.3	40.6	40.8			
Low:	11.0	10.8	12.3	13.8	14.1	15.3	19.7	24.9	25.6	31.2	25.2	32.0			

LEGENDS
— 1.40 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 7/05
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+45%)	13%
Low	35	(Nil)	5%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	1	0	0	1	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	2	0	0	0	4	0	1	2

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	75	73	70
to Sell	69	70	78
Hld's(000)	16545	16545	15858

% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	0.4	-4.4
3 yr.	31.1	0.4
5 yr.	79.3	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.36	*30.85*	*31.60*	Revenues per sh	*36.35*
1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	*3.35*	*3.60*	"Cash Flow" per sh	*4.20*
.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	*2.40*	*2.65*	Earnings per sh A	*3.10*
.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	*1.20*	*1.28*	Div'ds Decl'd per sh B ■	*1.50*
1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	*2.35*	*2.40*	Cap'l Spending per sh	*2.90*
7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	*18.65*	*19.35*	Book Value per sh C	*22.75*
19.61	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	*30.00*	*31.00*	Common Shs Outst'g D	*33.00*
15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.95	*Value Line*		Relative P/E Ratio	*.95*
5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*

CAPITAL STRUCTURE as of 6/30/09
Total Debt $496.4 mill. Due in 5 Yrs $228.8 mill.
LT Debt $332.7 mill. LT Interest $16.0 mill.
(Total interest coverage: 8.4x)

Pension Assets-12/08 $88.3 mill. Oblig. $142.7 mill.

Pfd Stock none

Common Stock 29,796,232 common shs. as of 8/3/09

MARKET CAP: $1.0 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
392.5	515.9	837.3	505.1	696.8	819.1	921.0	931.4	956.4	962.0	*925*	*980*	Revenues ($mill)	*1200*
22.0	24.7	26.8	29.4	34.6	43.0	48.6	72.0	61.8	67.7	*70.0*	*80.0*	Net Profit ($mill)	*100*
42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.3%	41.9%	47.7%	*38.0%*	*40.0%*	Income Tax Rate	*40.0%*
5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	7.0%	*7.6%*	*8.2%*	Net Profit Margin	*8.3%*
53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	42.7%	39.2%	*38.5%*	*40.0%*	Long-Term Debt Ratio	*38.0%*
37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	60.8%	*61.5%*	*60.0%*	Common Equity Ratio	*62.0%*
405.9	443.5	516.2	512.5	608.4	675.0	710.3	801.1	839.0	848.0	*910*	*1000*	Total Capital ($mill)	*1210*
533.3	562.2	607.0	666.6	748.3	799.9	877.3	920.0	948.9	982.6	*1030*	*1075*	Net Plant ($mill)	*1250*
7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	10.1%	8.6%	8.5%	*8.5%*	*9.0%*	Return on Total Cap'l	*9.0%*
11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	16.3%	12.8%	13.1%	*12.5%*	*13.5%*	Return on Shr. Equity	*13.5%*
14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	16.3%	12.8%	13.1%	*12.5%*	*13.5%*	Return on Com Equity	*13.5%*
4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	10.2%	6.7%	6.7%	*6.0%*	*6.5%*	Retained to Com Eq	*6.5%*
72%	67%	76%	62%	57%	52%	50%	37%	48%	49%	*51%*	*50%*	All Div'ds to Net Prof	*50%*

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	11.7	5.8	6.0
Other	316.6	429.3	351.4
Current Assets	328.3	435.1	357.4
Accts Payable	101.2	120.2	87.9
Debt Due	118.4	237.6	163.7
Other	108.7	142.1	135.7
Current Liab.	328.3	499.9	387.3
Fix. Chg. Cov.	476%	598%	834%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	6.0%	3.0%	*2.0%*
"Cash Flow"	8.5%	10.0%	*3.5%*
Earnings	11.5%	13.0%	*5.5%*
Dividends	3.5%	6.0%	*7.0%*
Book Value	9.0%	11.0%	*6.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	372.6	153.8	154.7	250.3	931.4
2007	368.4	171.7	156.2	260.1	956.4
2008	348.1	135.8	210.4	267.7	962.0
2009	362.2	134.5	*150*	*278.3*	*925*
2010	*365*	*160*	*170*	*285*	*980*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.06	.20	.51	.69	2.46
2007	1.30	.21	d.05	.63	2.09
2008	1.32	.26	.04	.67	2.27
2009	1.46	.15	*.05*	*.74*	*2.40*
2010	*1.45*	*.25*	*.10*	*.85*	*2.65*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	--	.213	.213	.438	.86
2006	--	.225	.225	.470	.92
2007	--	.245	.245	.515	1.01
2008	--	.270	.270	.568	1.11
2009	--	.298	.298		

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 340,136 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '08: residential, 46%; commercial, 23%; cogeneration and electric generation, 6%; industrial, 25%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 602 employees. Off./dir. control 1.0% of com. shares; Barclays, 7.5%; Keeley Asset Management, 5.6% (3/09 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

South Jersey Industries posted a flat top-line comparison and lower share earnings for the second quarter. Earnings declined moderately at subsidiary South Jersey Gas in the recent interim. Lower interest payments were more than offset by higher pension expense and an increase in other operating costs at this business. Meanwhile, significantly cooler temperatures during the period resulted in lower air conditioning demand and reduced earnings at the on-site energy production business, Marina Energy. The Asset Management and Marketing business also posted an earnings decline for the quarter.

The company has attractive prospects for the coming years. Customer growth at South Jersey Gas has continued at a steady clip, despite weakness in the broader economy. Natural gas remains the fuel of choice in the markets served by the utility, and SJG continues to see significant interest in conversions from other fuel sources to natural gas. Its recent gas main extension project, along with aggressive marketing efforts, should benefit the utility going forward. We anticipate solid results from the nonutility operations, as well.

South Jersey Gas has filed with the New Jersey Board of Public Utilities to reduce rates by 20.2%. The approval of the Basic Gas Supply Service (BGSS) petition would allow customers to realize significant savings, and provide an incentive for homeowners to switch from oil to natural gas. The BGSS clause allows South Jersey to pass along increases and decreases in gas costs directly to consumers. The company's ability to secure lower-priced gas has allowed it to provide customers with the lower rates.

Shares of South Jersey Industries have slipped one notch in Timeliness, and are now neutrally ranked for year-ahead performance. Looking further out, we anticipate higher revenues and share earnings at the company by 2012-2014. Moreover, SJI scores high marks for Safety, Price Stability, and Earnings Predictability. But from the present quotation, this issue has below-average, though reasonably well-defined, total return potential for the coming years.

Michael Napoli, CPA September 11, 2009

(A) Based on GAAP EPS through 2006, economic earnings thereafter. GAAP EPS: '07, $2.10; '08, $2.58. Excl. nonrecur. gain (loss): '01, $0.13; '08, $0.31. Excl gain (losses) from discont. ops.: '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02); '07, $0.01. Earnings may not sum due to rounding. Next egs. report due in November. (B) Div'ds paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. regulatory assets. In 2008: $270.4 mill., $9.10 per shr. (D) In millions, adj. for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	90
Earnings Predictability	80

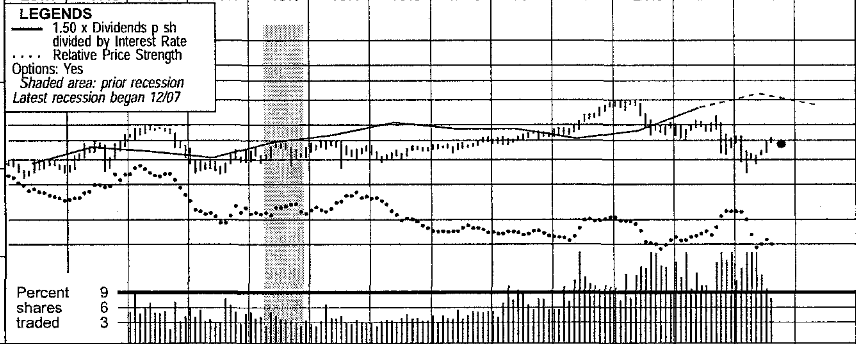
SOUTHWEST GAS NYSE-SWX

RECENT PRICE **23.98** | P/E RATIO **13.5** (Trailing: 16.3 / Median: 19.0) | RELATIVE P/E RATIO **0.84** | DIV'D YLD **4.1%** | VALUE LINE

TIMELINESS 3 Raised 5/23/08
SAFETY 3 Lowered 1/4/91
TECHNICAL 4 Lowered 7/24/09
BETA .75 (1.00 = Market)

High:	26.9	29.5	23.0	24.7	25.3	23.6	26.2	28.1	39.4	39.9	33.3	26.4
Low:	17.3	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0	26.5	21.1	17.1

LEGENDS
— 1.50 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+65%)	17%
Low	30	(+25%)	10%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	1	1	0	0	0	3	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	1

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	83	83	86
to Sell	75	71	71
Hld's(000)	32362	32859	32802

Percent shares traded 9 6 3

% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-16.6	-4.4
3 yr.	-20.7	0.4
5 yr.	20.3	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
25.68	28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.28	48.53	*39.55*	*41.50*	Revenues per sh	*52.00*
3.24	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.97	6.21	5.76	*5.95*	*6.15*	"Cash Flow" per sh	*7.30*
.63	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.39	*1.75*	*1.90*	Earnings per sh A	*2.30*
.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	*.95*	*1.00*	Div'ds Decl'd per sh B■†	*1.15*
5.43	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.79	*5.50*	*5.95*	Cap'l Spending per sh	*7.20*
15.96	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.49	*25.25*	*26.05*	Book Value per sh	*28.00*
21.00	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.19	*45.50*	*47.00*	Common Shs Outst'g C	*50.00*
26.5	14.0	NMF	69.3	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
1.57	.92	NMF	4.34	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	*Value Line*		Relative P/E Ratio	*1.00*
4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	*estimates*		Avg Ann'l Div'd Yield	*3.3%*

CAPITAL STRUCTURE as of 6/30/09

Total Debt $1228.0 mill. **Due in 5 Yrs** $566.1 mill.
LT Debt $1222.9 mill. **LT Interest** $85.0 mill.
(Total interest coverage: 2.2x)
Leases, Uncapitalized Annual rentals $6.0 mill.
Pension Assets-12/08 $342.9 mill. **Oblig.** $558.9 mill.

Pfd Stock None

Common Stock 44,822,466 shs. as of 7/30/09

MARKET CAP: $1.1 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
936.9	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	2152.1	2144.7	*1800*	*1950*	Revenues ($mill)	*2600*
39.3	38.3	37.2	38.6	38.5	58.9	48.1	80.5	83.2	61.0	*80.0*	*90.0*	Net Profit ($mill)	*115*
35.5%	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	37.3%	36.5%	40.1%	*38.0%*	*38.0%*	Income Tax Rate	*36.0%*
4.2%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	3.9%	2.8%	*4.4%*	*4.6%*	Net Profit Margin	*4.4%*
60.3%	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	58.1%	55.3%	*51.0%*	*50.5%*	Long-Term Debt Ratio	*49.0%*
35.5%	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	41.9%	44.7%	*49.0%*	*49.5%*	Common Equity Ratio	*51.0%*
1424.7	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2287.8	2349.7	2323.3	*2350*	*2475*	Total Capital ($mill)	*2750*
1581.1	1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	2845.3	2983.3	*3050*	*3150*	Net Plant ($mill)	*3600*
4.8%	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.5%	5.5%	4.5%	*5.0%*	*5.5%*	Return on Total Cap'l	*6.0%*
7.0%	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	*7.0%*	*7.5%*	Return on Shr. Equity	*8.0%*
7.8%	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	*7.0%*	*7.5%*	Return on Com Equity	*8.0%*
2.8%	2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	5.2%	4.8%	2.1%	*3.0%*	*3.5%*	Retained to Com Eq	*4.0%*
64%	67%	71%	70%	72%	49%	65%	42%	44%	63%	*54%*	*52%*	All Div'ds to Net Prof	*50%*

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	32.0	26.4	26.8
Other	470.5	411.7	232.5
Current Assets	502.5	438.1	259.3
Accts Payable	220.7	191.4	68.0
Debt Due	47.1	62.8	5.1
Other	260.1	255.7	303.0
Current Liab.	527.9	509.9	376.1
Fix. Chg. Cov.	229%	224%	233%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	6.0%	4.5%	*1.0%*
"Cash Flow"	4.5%	3.5%	*3.5%*
Earnings	7.0%	9.0%	*4.5%*
Dividends	0.5%	1.0%	*5.0%*
Book Value	4.5%	5.0%	*3.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	676.9	430.9	351.8	565.1	2024.7
2007	793.7	426.6	371.5	560.3	2152.1
2008	813.6	447.3	374.4	509.4	2144.7
2009	689.9	387.6	*275*	*447.5*	*1800*
2010	*730*	*410*	*310*	*500*	*1950*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.11	.02	d.26	1.11	1.98
2007	1.17	d.01	d.22	1.01	1.95
2008	1.14	d.06	d.38	.71	1.39
2009	1.12	d.01	*d.35*	*.99*	*1.75*
2010	*1.15*	*Nil*	*d.30*	*1.05*	*1.90*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.205	.205	.205	.205	.82
2006	.205	.205	.205	.205	.82
2007	.205	.215	.215	.215	.85
2008	.215	.225	.225	.225	.89
2009	.225	.238	.238		

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2008 margin mix: residential and small commercial, 86%; large commercial and industrial, 5%; transportation, 9%. *Total throughput:* 2.4 billion therms. Sold PriMerit Bank, 7/96. Has 4,732 employees. Off. & Dir. own 2.0% of common stock; T. Rowe Price Associates, Inc., 7.0%; Barclays Global Investors, 6.8%; GAMCO Investors, Inc., 6.4% (3/09 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89146. Telephone: 702-876-7237. Internet: www.swgas.com.

Southwest Gas reported unfavorable top-line performance for the second quarter. The recent recession stymied customer growth and resulted in lower usage. On the bright side, rate relief in Arizona and California (discussed below) supported results. Consequently, the company's share loss of $0.01 compared favorably with the prior-year tally. Losses are common during the second and third quarters, owing to the seasonal nature of the business. Looking forward, we expect lower revenue and a normal-sized share loss for the third quarter. Earnings comparisons ought to improve in the fourth quarter, assuming a better operating environment and greater cost control. Overall, we anticipate lower revenue and higher share earnings for Southwest in full-year 2009. Bottom-line growth may well continue next year.

The company is awaiting a rate case decision from the state of Nevada. Southwest is seeking a $30.5 million rate increase to compensate it for higher operating costs in that state. The request asks that the new rates take effect at the beginning of November. The company is also seeking an improvement in rate design. Specifically, SWX wants to implement a decoupled rate structure that would allow it more freedom in pursuing customer conservation opportunities. This follows recent prior rate case settlements in California and Arizona.

Investors should be mindful of several caveats. Warmer-than-normal temperatures during the winter months can hurt performance at Southwest Gas. In addition, the company will probably incur greater operating costs as it continues to expand, and profitability may suffer if rate relief cannot keep up with rising expenses.

The pace of customer growth should pick up in the future. That's assuming economic conditions in Southwest's service areas improve in the coming years. As a result, we anticipate higher revenues and share earnings at the company by 2012-2014. Moreover, income-oriented investors may find the stock's prospects for dividend growth attractive. But from the present quotation, this neutrally ranked equity features about-average total return potential for a utility.

Michael Napoli, CPA *September 11, 2009*

(A) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '93, 8¢; '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Incl. asset writedown: '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Totals may not sum due to rounding. Next egs. report due early November. (B) Dividends historically paid early March, June, September, December. ■† Div'd reinvestment and stock purchase plan avail.
(C) In millions.

Company's Financial Strength	B
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	70

WGL HOLDINGS NYSE-WGL

RECENT PRICE	33.30	P/E RATIO	13.2 (Trailing: 13.1, Median: 15.0)	RELATIVE P/E RATIO	0.82	DIV'D YLD	4.4%	VALUE LINE

TIMELINESS 3 Lowered 6/5/09
SAFETY 1 Raised 4/2/93
TECHNICAL 5 Lowered 9/11/09
BETA .65 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9	37.1	35.5
Low:	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8	22.4	28.6

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

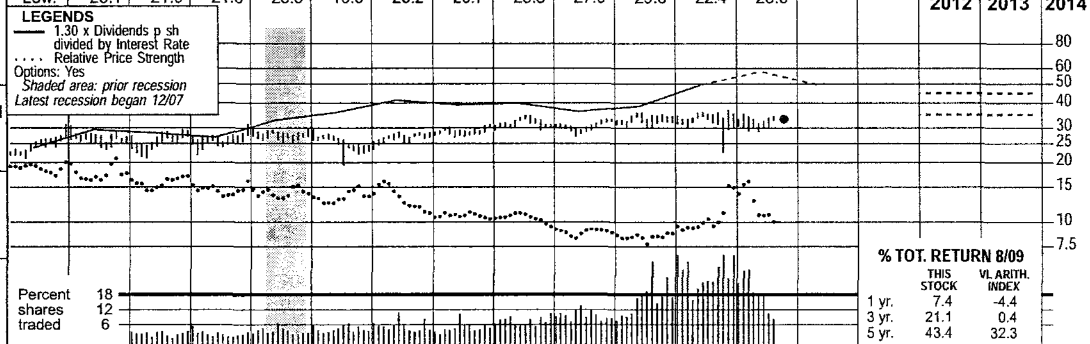
	Price	Gain	Ann'l Total Return
High	45	(+35%)	12%
Low	35	(+5%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	4	0	0	1	0	0	0	0
to Sell	0	4	0	0	4	1	0	2	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	94	97	85
to Sell	95	96	98
Hld's(000)	31580	30919	31333



% TOT. RETURN 8/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.4	-4.4
3 yr.	21.1	0.4
5 yr.	43.4	32.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.65	**53.20**	**54.25**	Revenues per sh A	**57.60**
2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.89	3.89	4.34	**4.40**	**4.45**	"Cash Flow" per sh	**4.70**
1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.10	2.44	**2.50**	**2.55**	Earnings per sh B	**2.70**
1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	**1.47**	**1.51**	Div'ds Decl'd per sh C ■	**1.63**
2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	2.70	**3.00**	**3.00**	Cap'l Spending per sh	**2.50**
11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.86	19.83	20.99	**22.00**	**23.05**	Book Value per sh D	**26.20**
41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.92	**50.00**	**50.00**	Common Shs Outst'g E	**50.00**
15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	13.7	*Bold figures are*		Avg Ann'l P/E Ratio	**15.0**
.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.82	.85	*Value Line*		Relative P/E Ratio	**1.00**
5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	*estimates*		Avg Ann'l Div'd Yield	**4.0%**

CAPITAL STRUCTURE as of 6/30/09
Total Debt $728.7 mill. **Due in 5 Yrs** $264.5 mill.
LT Debt $624.1 mill. **LT Interest** $37.4 mill.
(LT interest earned: 5.9x; total interest coverage: 5.2x)
Pension Assets-9/08 $588.2 mill. **Oblig.** $590.5 mill.
Preferred Stock $28.2 mill. **Pfd. Div'd** $1.3 mill.

Common Stock 50,141,229 shs. **as of 7/31/09**

MARKET CAP: $1.7 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	**2660**	**2715**	Revenues ($mill) A	**2880**
68.8	84.6	89.9	55.7	112.3	98.0	104.8	96.0	102.9	122.9	**125**	**130**	Net Profit ($mill)	**135**
36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	37.1%	**37.0%**	**37.0%**	Income Tax Rate	**38.0%**
7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	4.7%	**4.7%**	**4.8%**	Net Profit Margin	**4.7%**
41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	37.8%	37.9%	35.9%	**36.5%**	**35.5%**	Long-Term Debt Ratio	**34.0%**
56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	60.4%	60.3%	62.4%	**62.0%**	**63.0%**	Common Equity Ratio	**64.5%**
1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1526.1	1625.4	1679.5	**1780**	**1830**	Total Capital ($mill)	**2040**
1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	**2325**	**2420**	Net Plant ($mill)	**2720**
7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.6%	7.6%	8.5%	**8.0%**	**8.0%**	Return on Total Cap'l	**8.0%**
9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.1%	10.2%	11.4%	**11.5%**	**11.0%**	Return on Shr. Equity	**10.5%**
9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.3%	10.4%	11.6%	**12.0%**	**11.5%**	Return on Com Equity	**11.0%**
1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.2%	3.5%	5.0%	**4.5%**	**4.5%**	Retained to Com Eq	**4.0%**
82%	69%	67%	112%	56%	65%	62%	69%	66%	57%	**59%**	**59%**	All Div'ds to Net Prof	**60%**

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	4.9	6.2	41.6
Other	568.8	736.1	553.2
Current Assets	573.7	742.3	594.8
Accts Payable	216.9	243.1	202.8
Debt Due	205.4	347.0	104.6
Other	134.8	158.4	202.1
Current Liab.	557.1	748.5	509.5
Fix. Chg. Cov.	432%	490%	500%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	8.5%	9.0%	*1.5%*
"Cash Flow"	3.5%	4.0%	*2.5%*
Earnings	2.0%	4.0%	*4.0%*
Dividends	1.5%	1.5%	*3.0%*
Book Value	4.0%	4.5%	*4.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	902.9	1064.5	346.9	323.6	2637.9
2007	732.9	1119.9	467.5	325.7	2646.0
2008	751.6	1020.0	464.7	391.9	2628.2
2009	821.5	1040.9	427.0	***370.6***	***2660***
2010	***830***	***1050***	***445***	***390***	***2715***

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	.93	1.17	d.01	d.15	1.94
2007	.92	1.27	.22	d.31	2.10
2008	.96	1.66	.06	d.24	2.44
2009	1.03	1.65	.11	***d.29***	***2.50***
2010	***1.04***	***1.66***	***.12***	***d.27***	***2.55***

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.325	.333	.333	.333	1.32
2006	.333	.338	.338	.338	1.34
2007	.34	.34	.34	.34	1.36
2008	.34	.36	.36	.36	1.42
2009	.36	.37	.37		

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident'l and comm'l users (1,053,032 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 7.1% of common stock; Off./dir. less than 1% (1/09 proxy). Chrmn. & CEO: J.H. DeGraffenreidt, Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings posted a mixed bag of financial results for the off-peak June period. Top-line volumes fell approximately 8% over that time frame. This stemmed from weakness at the regulated utility segment, which has been dealing with lower natural gas consumption and some equipment cost issues. On a brighter note, the retail energy marketing division got a boost to its revenues and earnings contributions from higher natural gas and electricity margins. On the efficiency front, management has been performing well. Operating expenses declined 90 basis points versus the year-ago period. This stemmed from lower labor and benefits expenses. All told, the bottom line advanced nicely.

We look for the company to register a mid-single-digit earnings hike this year. The decent gains experienced earlier in 2009 will probably be offset by a larger share deficit in the fiscal fourth quarter. Despite the widening margins and solid performance from the retail energy and design build segments, demand at the mainstay regulated utility business may be soft. Also, the September period is historically and seasonally slow for WGL. Nonetheless, considering all that happened in the past year, the company appears to be in solid shape.

The LNG peaking facility is going to take longer than expected to be completed and put into service. That project will be used to support customer growth and maintain the pressure requirements of the distribution system in Chillum, MD. It was planned to be in service by the 2012-2013 winter heating season, but due to regulatory and legal issues, the following year is more likely.

These top-quality shares may appeal to income-oriented accounts, as they offer an attractive dividend yield. Typically, too, they proved much less volatile than the broader market during the recent turmoil. This partly stems from WGL's large government business in the DC metro area, which has been less affected by the economic downturn. These benefits are evident in the equity's top-notch Safety rank, and high mark for Price Stability. But appreciation potential is subpar for the pull to 2012-2014.

Bryan J. Fong *September 11, 2009*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢) discontinued operations: '06, (15¢). Qtly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late Oct.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '08: $291.3 million, $5.81/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	80

ATTACHMENT C

ZACKS INVESTMENT RESEARCH

Proven Ratings, Research & Recommendations

Zacks.com Quotes and Research

AMERICAN STS WTR CO (NYSE)

Scottrade

AWR	35.93	-0.15	(-0.42%)	Vol. 52,852	16:01 ET

American States is a public utility company engaged principally in thepurchase, production, distribution and sale of water. The company alsodistributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

General Information

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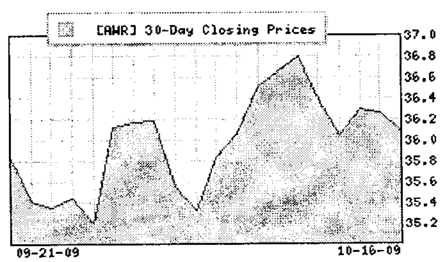
San Dimas, CA 91773-1212
Phone: 909 394-3600
Fax: 909 394-0711
Web: www.gswater.com
Email: investorinfo@aswater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	11/05/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	36.08
52 Week High	38.79
52 Week Low	27.00
Beta	0.36
20 Day Moving Average	55,833.50
Target Price Consensus	40.33



% Price Change

4 Week	-0.28
12 Week	-1.23
YTD	9.40

% Price Change Relative to S&P 500

4 Week	-2.05
12 Week	-11.08
YTD	-9.15

Share Information

Shares Outstanding (millions)	18.50
Market Capitalization (millions)	667.44
Short Ratio	6.71
Last Split Date	06/10/2002

Dividend Information

Dividend Yield	2.77%
Annual Dividend	$1.00
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	08/07/2009 / $0.25

EPS Information

Current Quarter EPS Consensus Estimate	0.55
Current Year EPS Consensus Estimate	1.82
Estimated Long-Term EPS Growth Rate	4.00
Next EPS Report Date	11/05/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.67
30 Days Ago	1.67
60 Days Ago	2.33
90 Days Ago	1.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	19.85	vs. Previous Year	18.52%	vs. Previous Year	16.49%
Trailing 12 Months:	21.10	vs. Previous Quarter	128.57%	vs. Previous Quarter:	17.52%
PEG Ratio	4.96				

Price Ratios		ROE		ROA	
Price/Book	1.87	09/30/09	-	09/30/09	-

Price/Cash Flow	9.59	06/30/09	9.40	06/30/09	2.83
Price / Sales	-	03/31/09	9.02	03/31/09	2.68
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	1.10	06/30/09	1.08	06/30/09	8.83
03/31/09	0.82	03/31/09	0.80	03/31/09	8.51
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	10.59	06/30/09	10.59	06/30/09	19.31
03/31/09	9.75	03/31/09	9.75	03/31/09	18.01
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	51.08	06/30/09	0.87	06/30/09	46.39
03/31/09	52.72	03/31/09	0.98	03/31/09	49.56

ZACKS INVESTMENT RESEARCH
Proven Ratings, Research & Recommendations
Zacks.com Quotes and Research

CALIFORNIA WTR SVC GROUP (NYSE)

Scottrade

CWT	40.11	▲0.55	(1.39%)	Vol. 144,240	16:02 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

General Information

CALIF WATER SVC
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Web: www.calwatergroup.com
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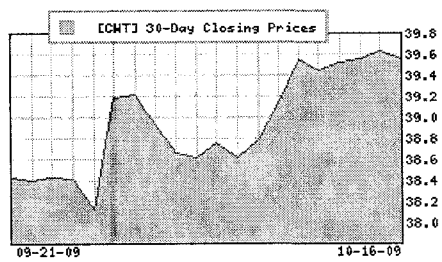
Industry	UTIL-WATER SPLY
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	10/28/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	39.56
52 Week High	48.28
52 Week Low	29.13
Beta	0.47
20 Day Moving Average	99,815.65
Target Price Consensus	47



% Price Change		% Price Change Relative to S&P 500	
4 Week	1.57	4 Week	-0.24
12 Week	5.07	12 Week	-5.40
YTD	-14.80	YTD	-29.24

Share Information		Dividend Information	
Shares Outstanding (millions)	20.75	Dividend Yield	2.98%
		Annual Dividend	$1.18
Market Capitalization (millions)	820.67	Payout Ratio	0.00
Short Ratio	5.48	Change in Payout Ratio	0.00
Last Split Date	01/26/1998	Last Dividend Payout / Amount	08/06/2009 / $0.29

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.05	Current (1=Strong Buy, 5=Strong Sell)	2.00
Current Year EPS Consensus Estimate	2.10	30 Days Ago	2.00
Estimated Long-Term EPS Growth Rate	8.20	60 Days Ago	2.00
Next EPS Report Date	10/28/2009	90 Days Ago	1.83

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	18.86	vs. Previous Year	20.83%	vs. Previous Year	10.50%
Trailing 12 Months:	18.75	vs. Previous Quarter	383.33%	vs. Previous Quarter:	34.70%
PEG Ratio	2.31				

Price Ratios		ROE		ROA	
Price/Book	2.02	09/30/09	-	09/30/09	-
Price/Cash Flow	10.25	06/30/09	10.94	06/30/09	3.12
Price / Sales	-	03/31/09	10.58	03/31/09	3.14
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	1.23	06/30/09	1.18	06/30/09	10.12
03/31/09	0.56	03/31/09	0.52	03/31/09	9.92
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	16.26	06/30/09	16.26	06/30/09	19.56
03/31/09	15.95	03/31/09	15.95	03/31/09	19.28
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	38.87	06/30/09	0.95	06/30/09	48.59
03/31/09	36.94	03/31/09	0.72	03/31/09	41.82

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INVESTMENT RESEARCH
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SOUTHWEST WATER CO (NASD)

SWWC	5.41	▲0.02	(0.37%)	Vol. 48,024	16:00 ET

Southwest Water Company provides a broad range of utility and utility management services and serves people from coast to coast. Through its various subsidiaries, Southwest operates and manages water and wastewater treatment facilities along with providing utility submetering and billing and collection services.

General Information

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Phone: 213 929-1800
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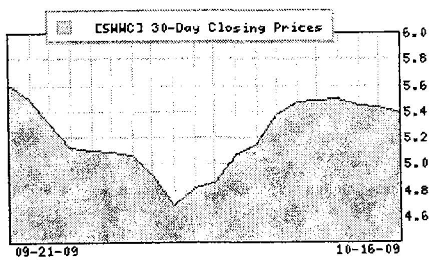
Email: swwc@swwc.com

Industry	UTIL-WATER SPLY
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	12/19/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	5.39
52 Week High	9.96
52 Week Low	2.67
Beta	0.60
20 Day Moving Average	125,904.65
Target Price Consensus	8.25



% Price Change		% Price Change Relative to S&P 500	
4 Week	-4.77	4 Week	-6.47
12 Week	2.86	12 Week	-7.39
YTD	67.39	YTD	39.01

Share Information		Dividend Information	
Shares Outstanding (millions)	24.88	Dividend Yield	1.86%
		Annual Dividend	$0.10
Market Capitalization (millions)	134.09	Payout Ratio	0.00
Short Ratio	3.17	Change in Payout Ratio	0.00
Last Split Date	12/28/2005	Last Dividend Payout / Amount	07/23/2009 / $0.03

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.08	Current (1=Strong Buy, 5=Strong Sell)	2.20
Current Year EPS Consensus Estimate	0.17	30 Days Ago	2.50
Estimated Long-Term EPS Growth Rate	-	60 Days Ago	2.50
Next EPS Report Date	12/19/2009	90 Days Ago	2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	31.10	vs. Previous Year	-25.00%	vs. Previous Year	-8.15%
Trailing 12 Months:	-	vs. Previous Quarter	-%	vs. Previous Quarter:	0.05%
PEG Ratio	-				

Price Ratios	ROE	ROA

Price/Book	1.20	09/30/09	-	09/30/09	-
Price/Cash Flow	3.06	06/30/09	-27.86	06/30/09	-6.36
Price / Sales	-	03/31/09	-25.95	03/31/09	-6.30
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	-	06/30/09	-	06/30/09	-15.64
03/31/09	1.33	03/31/09	1.33	03/31/09	-15.27
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	-	06/30/09	-	06/30/09	-
03/31/09	-20.42	03/31/09	-20.42	03/31/09	4.48
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	-	06/30/09	-	06/30/09	-
03/31/09	-	03/31/09	1.78	03/31/09	63.88

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AQUA AMERICA INC (NYSE)

Scottrade

WTR	16.70	▲0.05	(0.30%)	Vol. 1,076,433	16:00 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

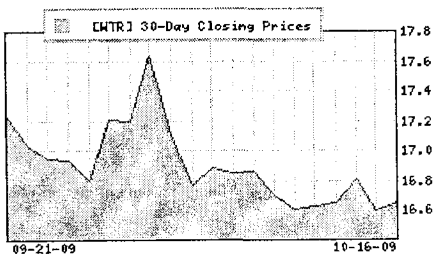
General Information

AQUA AMER INC
762 W Lancaster Avenue
Bryn Mawr, PA 19010-3489
Phone: 610 527-8000
Fax: 610-645-1061
Web: www.suburbanwater.com
Email: ir.aquaamerica.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	11/04/2009

Price and Volume Information

Zacks Rank	2
Yesterday's Close	16.65
52 Week High	22.00
52 Week Low	14.00
Beta	0.15
20 Day Moving Average	922,590.00
Target Price Consensus	22.14



% Price Change		% Price Change Relative to S&P 500	
4 Week	-3.81	4 Week	-5.53
12 Week	-7.71	12 Week	-16.91
YTD	-19.14	YTD	-32.85

Share Information		Dividend Information	
Shares Outstanding (millions)	135.92	Dividend Yield	3.24%
		Annual Dividend	$0.54
Market Capitalization (millions)	2,263.03	Payout Ratio	0.00
Short Ratio	22.71	Change in Payout Ratio	0.00
Last Split Date	12/02/2005	Last Dividend Payout / Amount	08/13/2009 / $0.14

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.26	Current (1=Strong Buy, 5=Strong Sell)	1.80
Current Year EPS Consensus Estimate	0.81	30 Days Ago	1.80
Estimated Long-Term EPS Growth Rate	7.50	60 Days Ago	1.80
Next EPS Report Date	11/04/2009	90 Days Ago	1.89

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	20.63	vs. Previous Year	11.76%	vs. Previous Year	11.00%
Trailing 12 Months:	21.35	vs. Previous Quarter	35.71%	vs. Previous Quarter:	8.32%
PEG Ratio	2.75				

Price Ratios		ROE		ROA	

Price/Book	2.10	09/30/09	-	09/30/09	-
Price/Cash Flow	11.68	06/30/09	9.95	06/30/09	3.04
Price / Sales	-	03/31/09	9.77	03/31/09	2.99
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	0.60	06/30/09	0.55	06/30/09	15.97
03/31/09	0.60	03/31/09	0.55	03/31/09	15.87
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	26.47	06/30/09	26.47	06/30/09	7.94
03/31/09	26.37	03/31/09	26.37	03/31/09	7.86
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	39.75	06/30/09	1.14	06/30/09	53.25
03/31/09	31.95	03/31/09	1.15	03/31/09	53.52

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AGL RESOURCES INC (NYSE)

Scottrade

AGL	37.27	0.41	(1.11%)	Vol. 181,647	16:03 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.

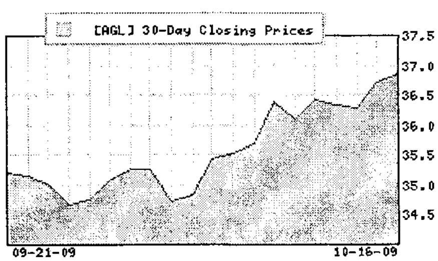
General Information

AGL RESOURCES
Ten Peachtree Place NE
Atlanta, GA 30309
Phone: 404 584-4000
Fax: 404 584-3945
Web: www.aglresources.com
Email: scave@aglresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	10/29/2009

Price and Volume Information

Zacks Rank	2
Yesterday's Close	36.86
52 Week High	37.29
52 Week Low	24.02
Beta	0.41
20 Day Moving Average	254,161.84
Target Price Consensus	36.29



% Price Change		% Price Change Relative to S&P 500	
4 Week	4.98	4 Week	3.11
12 Week	8.00	12 Week	-2.77
YTD	17.58	YTD	-2.36

Share Information		Dividend Information	
Shares Outstanding (millions)	77.28	Dividend Yield	4.67%
		Annual Dividend	$1.72
Market Capitalization (millions)	2,848.50	Payout Ratio	0.00
Short Ratio	3.66	Change in Payout Ratio	0.00
Last Split Date	12/04/1995	Last Dividend Payout / Amount	08/12/2009 / $0.43

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.22	Current (1=Strong Buy, 5=Strong Sell)	2.20
Current Year EPS Consensus Estimate	2.70	30 Days Ago	2.20
Estimated Long-Term EPS Growth Rate	4.70	60 Days Ago	2.20
Next EPS Report Date	10/29/2009	90 Days Ago	2.20

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.65	vs. Previous Year	-13.33%	vs. Previous Year	-15.09%
Trailing 12 Months:	12.05	vs. Previous Quarter	-83.23%	vs. Previous Quarter:	-62.11%
PEG Ratio	2.93				

Price Ratios		ROE		ROA	
Price/Book	1.62	09/30/09	-	09/30/09	-
Price/Cash Flow		06/30/09		06/30/09	

	7.87		13.60		3.68
Price / Sales	-	03/31/09	13.92	03/31/09	3.66
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	1.03	06/30/09	0.61	06/30/09	8.63
03/31/09	1.06	03/31/09	0.80	03/31/09	8.53
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	17.12	06/30/09	17.12	06/30/09	22.79
03/31/09	14.84	03/31/09	14.84	03/31/09	22.87
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	3.70	06/30/09	0.95	06/30/09	48.78
03/31/09	3.45	03/31/09	0.95	03/31/09	48.72

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ATMOS ENERGY CORP (NYSE)

Scottrade

ATO	29.30	▲0.40	(1.38%)	Vol. 447,120	16:00 ET

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

General Information

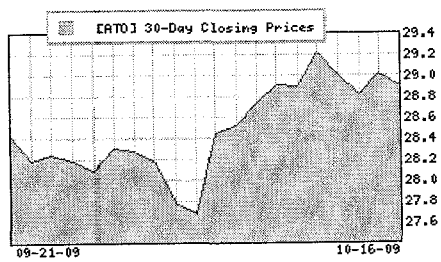
ATMOS ENERGY CP
Three Lincoln Centre 5430 Lbj Freeway
Suite 1800
Dallas, TX 75240
Phone: 972-934-9227
Fax: 972-855-3040
Web: www.atmosenergy.com
Email: InvestorRelations@atmosenergy.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	09/30/09
Next EPS Date	11/10/2009

Price and Volume Information

Zacks Rank	2
Yesterday's Close	28.90
52 Week High	29.50
52 Week Low	20.07
Beta	0.52
20 Day Moving Average	1,292,367.25
Target Price Consensus	29.2



% Price Change

4 Week	1.37
12 Week	7.08
YTD	21.94

% Price Change Relative to S&P 500

4 Week	-0.44
12 Week	-3.60
YTD	1.26

Share Information

Shares Outstanding (millions)	92.27
Market Capitalization (millions)	2,666.66
Short Ratio	2.98
Last Split Date	05/17/1994

Dividend Information

Dividend Yield	4.57%
Annual Dividend	$1.32
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	08/21/2009 / $0.33

EPS Information

Current Quarter EPS Consensus Estimate	-0.08
Current Year EPS Consensus Estimate	2.11
Estimated Long-Term EPS Growth Rate	5.00
Next EPS Report Date	11/10/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.83
30 Days Ago	2.57
60 Days Ago	2.57
90 Days Ago	2.57

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.33	vs. Previous Year	14.29%	vs. Previous Year	-52.37%
Trailing 12 Months:	13.63	vs. Previous Quarter	-104.51%	vs. Previous Quarter:	-57.13%
PEG Ratio	2.67				

Price Ratios		ROE		ROA	
Price/Book	1.21	09/30/09	-	09/30/09	-
Price/Cash Flow	6.88	06/30/09	9.14	06/30/09	2.99
Price / Sales	-	03/31/09	9.16	03/31/09	2.93
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	1.24	06/30/09	0.74	06/30/09	3.37
03/31/09	1.15	03/31/09	0.90	03/31/09	2.91
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	5.55	06/30/09	5.55	06/30/09	23.82
03/31/09	4.61	03/31/09	4.61	03/31/09	23.70
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	11.62	06/30/09	0.99	06/30/09	49.75
03/31/09	11.66	03/31/09	1.00	03/31/09	49.89

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LACLEDE GROUP INC (NYSE)

Scottrade

LG	32.37	▲0.12	(0.37%)	Vol. 98,711	16:02 ET

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

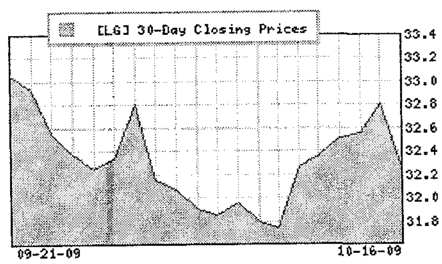
General Information

LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: 314-421-1979
Web: www.thelacledegroup.com
Email: mkullman@lacledegas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	09/30/09
Next EPS Date	10/22/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	32.25
52 Week High	55.81
52 Week Low	29.26
Beta	0.02
20 Day Moving Average	91,660.35
Target Price Consensus	35



% Price Change

4 Week	-2.89
12 Week	-6.82
YTD	-31.15

% Price Change Relative to S&P 500

4 Week	-4.62
12 Week	-16.11
YTD	-42.82

Share Information

Shares Outstanding (millions)	22.17
Market Capitalization (millions)	714.89
Short Ratio	2.51
Last Split Date	03/08/1994

Dividend Information

Dividend Yield	4.78%
Annual Dividend	$1.54
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	09/09/2009 / $0.38

EPS Information

Current Quarter EPS Consensus Estimate	-0.18
Current Year EPS Consensus Estimate	2.89
Estimated Long-Term EPS Growth Rate	3.00
Next EPS Report Date	10/22/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	3.25
30 Days Ago	3.25
60 Days Ago	3.25
90 Days Ago	3.25

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.90	vs. Previous Year	-26.19%	vs. Previous Year	-38.68%
Trailing 12 Months:	10.79	vs. Previous Quarter	-77.86%	vs. Previous Quarter:	-52.97%
PEG Ratio	4.30				

Price Ratios		ROE		ROA	
Price/Book	1.35	09/30/09	-	09/30/09	-

Price/Cash Flow	7.50	06/30/09	12.78	06/30/09	3.71
Price / Sales	-	03/31/09	13.53	03/31/09	3.89
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	1.24	06/30/09	0.98	06/30/09	3.14
03/31/09	1.17	03/31/09	0.99	03/31/09	2.97
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	4.81	06/30/09	4.81	06/30/09	23.97
03/31/09	4.46	03/31/09	4.46	03/31/09	24.11
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	10.99	06/30/09	0.73	06/30/09	42.30
03/31/09	11.65	03/31/09	0.73	03/31/09	42.17

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NEW JERSEY RES (NYSE)

Scottrade

NJR	36.84	0.41	(1.13%)	Vol. 122,499	16:01 ET

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.

General Information

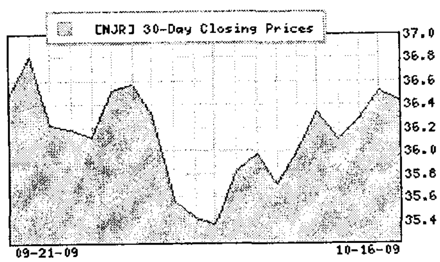
NJ RESOURCES
1415 Wyckoff Road
Wall, NJ 07719
Phone: 732-938-1489
Fax: 732 938-3154
Web: www.njresources.com
Email: investcont@njresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	09/30/09
Next EPS Date	11/05/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	36.43
52 Week High	42.37
52 Week Low	29.95
Beta	0.13
20 Day Moving Average	200,753.91
Target Price Consensus	42



% Price Change

4 Week	-1.09
12 Week	-8.19
YTD	-7.42

% Price Change Relative to S&P 500

4 Week	-2.85
12 Week	-17.34
YTD	-23.12

Share Information

Shares Outstanding (millions)	42.01
Market Capitalization (millions)	1,530.61
Short Ratio	9.89
Last Split Date	03/04/2008

Dividend Information

Dividend Yield	3.40%
Annual Dividend	$1.24
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	09/11/2009 / $0.31

EPS Information

Current Quarter EPS Consensus Estimate	-0.12
Current Year EPS Consensus Estimate	2.39
Estimated Long-Term EPS Growth Rate	6.50
Next EPS Report Date	11/05/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.50
30 Days Ago	1.50
60 Days Ago	1.67
90 Days Ago	1.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.21	vs. Previous Year	130.00%	vs. Previous Year	-55.91%
Trailing 12 Months:	17.35	vs. Previous Quarter	-98.24%	vs. Previous Quarter:	-52.96%
PEG Ratio	2.19				

Price Ratios		ROE		ROA	
Price/Book	2.13	09/30/09	-	09/30/09	-
Price/Cash Flow	11.50	06/30/09	12.20	06/30/09	3.58
Price / Sales	-	03/31/09	11.73	03/31/09	3.25
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	1.23	06/30/09	0.88	06/30/09	2.98
03/31/09	1.17	03/31/09	1.07	03/31/09	2.37
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	5.66	06/30/09	5.66	06/30/09	17.11
03/31/09	5.26	03/31/09	5.26	03/31/09	17.90
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	9.78	06/30/09	0.63	06/30/09	38.82
03/31/09	10.09	03/31/09	0.61	03/31/09	37.74

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NICOR INC (NYSE)					Scottrade
GAS	38.91	▲0.58	(1.51%)	Vol. 245,400	16:01 ET

Nicor Inc. is a holding company and is a member of the Standard & Poor's 500 Index. Its primary business is Nicor Gas, one of the nation's largest natural gas distribution companies. Nicor owns Tropical Shipping, a containerized shipping business serving the Caribbean region and the Bahamas. In addition, the company owns and has an equity interest in several energy-related businesses.

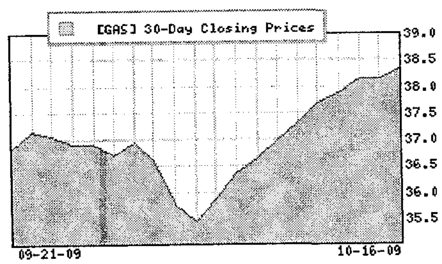
General Information

NICOR INC
1844 Ferry Road
Naperville, IL 60563-9600
Phone: 630-305-9500
Fax: 630-983-9328
Web: www.nicor.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	11/09/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	38.33
52 Week High	47.60
52 Week Low	27.50
Beta	0.34
20 Day Moving Average	305,082.34
Target Price Consensus	38.75



% Price Change		% Price Change Relative to S&P 500	
4 Week	3.29	4 Week	1.45
12 Week	4.13	12 Week	-6.25
YTD	10.33	YTD	-8.37

Share Information		Dividend Information	
Shares Outstanding (millions)	45.22	Dividend Yield	4.85%
		Annual Dividend	$1.86
Market Capitalization (millions)	1,733.36	Payout Ratio	0.00
Short Ratio	5.75	Change in Payout Ratio	0.00
Last Split Date	04/27/1993	Last Dividend Payout / Amount	09/28/2009 / $0.47

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.09	Current (1=Strong Buy, 5=Strong Sell)	2.67
Current Year EPS Consensus Estimate	2.57	30 Days Ago	2.67
Estimated Long-Term EPS Growth Rate	4.20	60 Days Ago	3.00
Next EPS Report Date	11/09/2009	90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.90	vs. Previous Year	-21.87%	vs. Previous Year	-36.04%
Trailing 12 Months:	15.09	vs. Previous Quarter	-47.92%	vs. Previous Quarter:	-59.70%
PEG Ratio	3.52				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.72	09/30/09	-	09/30/09	-

Price/Cash Flow	5.60	06/30/09	11.78	06/30/09	2.59
Price / Sales	-	03/31/09	12.46	03/31/09	2.67
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	0.76	06/30/09	0.73	06/30/09	3.81
03/31/09	0.78	03/31/09	0.77	03/31/09	3.70
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	5.46	06/30/09	5.46	06/30/09	22.25
03/31/09	5.21	03/31/09	5.21	03/31/09	22.16
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	14.05	06/30/09	0.50	06/30/09	33.12
03/31/09	15.05	03/31/09	0.45	03/31/09	30.91

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NORTHWEST NAT GAS CO (NYSE)

NWN	44.47	1.08	(2.49%)	Vol. 111,785	16:03 ET

NW Natural is principally engaged in the distribution of natural gas.The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

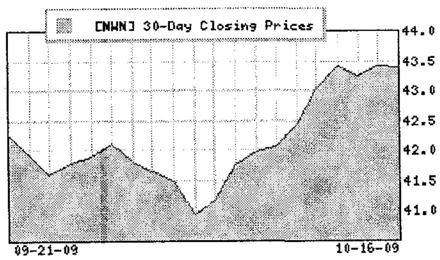
General Information

NORTHWEST NAT G
220 NW Second Avenue
Portland, OR 97209
Phone: 503 226-4211
Fax: 503 273-4824
Web: www.nwnatural.com
Email: Bob.Hess@nwnatural.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	11/03/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	43.39
52 Week High	52.39
52 Week Low	37.71
Beta	0.25
20 Day Moving Average	123,685.30
Target Price Consensus	51.25



% Price Change

4 Week	1.90
12 Week	-4.24
YTD	-1.90

% Price Change Relative to S&P 500

4 Week	0.09
12 Week	-13.78
YTD	-18.53

Share Information

Shares Outstanding (millions)	26.51
Market Capitalization (millions)	1,150.40
Short Ratio	14.44
Last Split Date	09/09/1996

Dividend Information

Dividend Yield	3.64%
Annual Dividend	$1.58
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	07/29/2009 / $0.40

EPS Information

Current Quarter EPS Consensus Estimate	-0.36
Current Year EPS Consensus Estimate	2.70
Estimated Long-Term EPS Growth Rate	6.00
Next EPS Report Date	11/03/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.50
30 Days Ago	1.50
60 Days Ago	1.50
90 Days Ago	1.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	16.06	vs. Previous Year	0.00%	vs. Previous Year	-22.06%
Trailing 12 Months:	15.61	vs. Previous Quarter	-93.30%	vs. Previous Quarter:	-65.92%
PEG Ratio	2.68				

Price Ratios **ROE** **ROA**

Price/Book	1.75	09/30/09	-	09/30/09	-
Price/Cash Flow	8.10	06/30/09	11.51	06/30/09	3.26
Price / Sales	-	03/31/09	11.69	03/31/09	3.37
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	0.94	06/30/09	0.67	06/30/09	7.03
03/31/09	1.03	03/31/09	0.80	03/31/09	6.78
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	11.19	06/30/09	11.19	06/30/09	24.80
03/31/09	10.81	03/31/09	10.81	03/31/09	25.05
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	8.96	06/30/09	0.89	06/30/09	47.18
03/31/09	10.10	03/31/09	0.88	03/31/09	46.93

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PIEDMONT NAT GAS INC (NYSE)

Scottrade

PNY	24.62	0.43	(1.78%)	Vol. 318,583	16:02 ET

Piedmont Natural Gas Co, Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

General Information

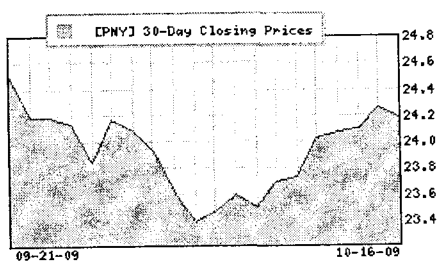
PIEDMONT NAT GA
4720 Piedmont Row Drive
Charlotte, NC 28210
Phone: 704 364-3120
Fax: 704-365-3849
Web: www.piedmontng.com
Email: investorrelations@piedmontng.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	October
Last Reported Quarter	07/31/09
Next EPS Date	01/04/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	24.19
52 Week High	34.19
52 Week Low	20.68
Beta	0.18
20 Day Moving Average	370,152.69
Target Price Consensus	27.42



% Price Change

4 Week	-1.06
12 Week	-3.20
YTD	-23.62

% Price Change Relative to S&P 500

4 Week	-2.83
12 Week	-12.85
YTD	-36.57

Share Information

Shares Outstanding (millions)	73.11
Market Capitalization (millions)	1,768.56
Short Ratio	7.66
Last Split Date	11/01/2004

Dividend Information

Dividend Yield	4.46%
Annual Dividend	$1.08
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	09/22/2009 / $0.27

EPS Information

Current Quarter EPS Consensus Estimate	-0.14
Current Year EPS Consensus Estimate	1.58
Estimated Long-Term EPS Growth Rate	7.00
Next EPS Report Date	01/04/2010

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.20
30 Days Ago	2.20
60 Days Ago	2.33
90 Days Ago	2.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.35	vs. Previous Year	0.00%	vs. Previous Year	-49.20%
Trailing 12 Months:	-	vs. Previous Quarter	-113.70%	vs. Previous Quarter:	-60.43%
PEG Ratio	2.19				

Price Ratios		**ROE**		**ROA**	
Price/Book	1.86	07/31/09	12.13	07/31/09	3.64
Price/Cash Flow	8.55	04/30/09	12.17	04/30/09	3.66
Price / Sales	1.02	01/31/09	11.70	01/31/09	3.55
Current Ratio		**Quick Ratio**		**Operating Margin**	
07/31/09	0.99	07/31/09	0.76	07/31/09	6.59
04/30/09	1.07	04/30/09	0.88	04/30/09	5.97
01/31/09	0.99	01/31/09	0.76	01/31/09	5.22
Net Margin		**Pre-Tax Margin**		**Book Value**	
07/31/09	12.89	07/31/09	12.89	07/31/09	12.99
04/30/09	11.58	04/30/09	11.58	04/30/09	13.20
01/31/09	8.66	01/31/09	8.66	01/31/09	12.98
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
07/31/09	10.20	07/31/09	0.84	07/31/09	45.54
04/30/09	10.05	04/30/09	0.82	04/30/09	45.00
01/31/09	10.50	01/31/09	0.83	01/31/09	45.46

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SOUTH JERSEY INDS INC (NYSE)

Scottrade

SJI	37.42	0.51	(1.38%)	Vol. 190,790	16:03 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

General Information

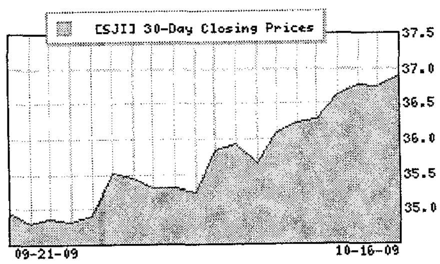
SOUTH JERSEY IN
1 South Jersey Plaza
Folsom, NJ 08037
Phone: 609 561-9000
Fax: 609 561-8225
Web: www.sjindustries.com
Email: investorrelations@sjindustries.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	11/05/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	36.91
52 Week High	40.78
52 Week Low	29.27
Beta	0.22
20 Day Moving Average	173,099.16
Target Price Consensus	45.2



% Price Change

4 Week	5.16
12 Week	-0.03
YTD	-7.38

% Price Change Relative to S&P 500

4 Week	3.28
12 Week	-9.99
YTD	-23.08

Share Information

Shares Outstanding (millions)	29.80
Market Capitalization (millions)	1,099.77
Short Ratio	4.85
Last Split Date	07/01/2005

Dividend Information

Dividend Yield	3.22%
Annual Dividend	$1.19
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	09/08/2009 / $0.30

EPS Information

Current Quarter EPS Consensus Estimate	0.06
Current Year EPS Consensus Estimate	2.40
Estimated Long-Term EPS Growth Rate	9.60
Next EPS Report Date	11/05/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.60
30 Days Ago	1.60
60 Days Ago	1.75
90 Days Ago	2.40

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.36	vs. Previous Year	-42.31%	vs. Previous Year	-1.00%
Trailing 12 Months:	15.91	vs. Previous Quarter	-89.73%	vs. Previous Quarter:	-62.87%
PEG Ratio	1.60				

Price Ratios **ROE** **ROA**

Price/Book	2.04	09/30/09	-	09/30/09	-
Price/Cash Flow	10.62	06/30/09	13.17	06/30/09	4.06
Price / Sales	-	03/31/09	14.14	03/31/09	4.30
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	0.92	06/30/09	0.64	06/30/09	7.13
03/31/09	0.93	03/31/09	0.74	03/31/09	7.43
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	17.54	06/30/09	17.54	06/30/09	18.11
03/31/09	14.51	03/31/09	14.51	03/31/09	18.20
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	5.74	06/30/09	0.62	06/30/09	38.14
03/31/09	5.73	03/31/09	0.61	03/31/09	38.07

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SOUTHWEST GAS CORP (NYSE)

Scottrade

SWX	25.41	▲0.05	(0.20%)	Vol. 255,762	16:01 ET

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing,transporting, and distributing natural gas in portions of Arizona, Nevada,and California. The Company also engaged in financial services activities,through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

General Information

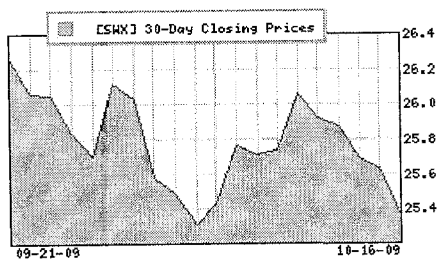
SOUTHWEST GAS
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, NV 89193-8510
Phone: 702 876-7237
Fax: 702-876-7037
Web: www.swgas.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	09/30/09
Next EPS Date	11/04/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	25.36
52 Week High	26.84
52 Week Low	17.08
Beta	0.70
20 Day Moving Average	175,584.09
Target Price Consensus	28.25



% Price Change		% Price Change Relative to S&P 500	
4 Week	-3.65	4 Week	-5.36
12 Week	6.33	12 Week	-4.27
YTD	0.56	YTD	-16.50

Share Information		Dividend Information	
Shares Outstanding (millions)	44.82	Dividend Yield	3.75%
		Annual Dividend	$0.95
Market Capitalization (millions)	1,136.69	Payout Ratio	0.00
Short Ratio	5.56	Change in Payout Ratio	0.00
Last Split Date	N/A	Last Dividend Payout / Amount	08/13/2009 / $0.24

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.36	Current (1=Strong Buy, 5=Strong Sell)	2.60
Current Year EPS Consensus Estimate	1.84	30 Days Ago	2.60
Estimated Long-Term EPS Growth Rate	7.00	60 Days Ago	2.60
Next EPS Report Date	11/04/2009	90 Days Ago	2.60

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.78	vs. Previous Year	116.67%	vs. Previous Year	-13.34%
Trailing 12 Months:	17.37	vs. Previous Quarter	-99.11%	vs. Previous Quarter:	-43.81%
PEG Ratio	1.97				

Price Ratios		ROE		ROA	
Price/Book	1.05	09/30/09	-	09/30/09	-

Price/Cash Flow	4.30	06/30/09	5.70	06/30/09	1.63
Price / Sales	-	03/31/09	5.45	03/31/09	1.56
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	0.69	06/30/09	0.69	06/30/09	3.07
03/31/09	0.82	03/31/09	0.82	03/31/09	2.81
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	5.35	06/30/09	5.35	06/30/09	24.16
03/31/09	5.09	03/31/09	5.09	03/31/09	24.40
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	-	06/30/09	1.04	06/30/09	50.97
03/31/09	-	03/31/09	1.05	03/31/09	51.33

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WGL HLDGS INC (NYSE)

WGL	34.35	0.45	(1.33%)	Vol. 242,795	16:00 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

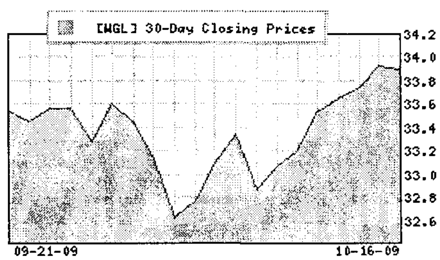
General Information

WGL HLDGS INC
101 Constitution Avenue NW
Washington, DC 20080
Phone: 703 750-2000
Fax: 703 750-4828
Web: www.wglholdings.com
Email: madams@washgas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	09/30/09
Next EPS Date	11/05/2009

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.90
52 Week High	37.08
52 Week Low	25.34
Beta	0.21
20 Day Moving Average	247,161.59
Target Price Consensus	35.5



% Price Change		% Price Change Relative to S&P 500	
4 Week	-0.21	4 Week	-1.98
12 Week	1.62	12 Week	-8.51
YTD	3.70	YTD	-13.88

Share Information		Dividend Information	
Shares Outstanding (millions)	50.14	Dividend Yield	4.34%
		Annual Dividend	$1.47
Market Capitalization (millions)	1,699.78	Payout Ratio	0.00
Short Ratio	12.58	Change in Payout Ratio	0.00
Last Split Date	05/02/1995	Last Dividend Payout / Amount	10/07/2009 / $0.37

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	-0.31	Current (1=Strong Buy, 5=Strong Sell)	2.50
Current Year EPS Consensus Estimate	2.45	30 Days Ago	2.50
Estimated Long-Term EPS Growth Rate	5.00	60 Days Ago	2.50
Next EPS Report Date	11/05/2009	90 Days Ago	2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.89	vs. Previous Year	83.33%	vs. Previous Year	-8.09%
Trailing 12 Months:	13.19	vs. Previous Quarter	-93.33%	vs. Previous Quarter:	-58.97%
PEG Ratio	2.78				

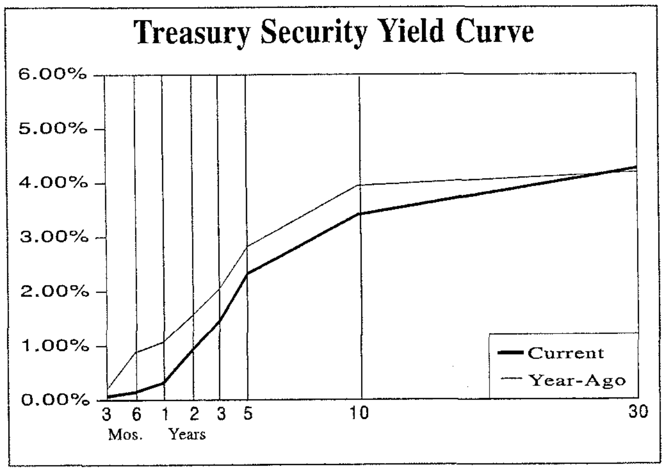
Price Ratios	ROE	ROA

Price/Book	1.50	09/30/09	-	09/30/09	-
Price/Cash Flow	7.87	06/30/09	11.67	06/30/09	3.84
Price / Sales	-	03/31/09	11.60	03/31/09	3.75
Current Ratio		**Quick Ratio**		**Operating Margin**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	1.17	06/30/09	0.82	06/30/09	5.26
03/31/09	1.20	03/31/09	1.04	03/31/09	5.08
Net Margin		**Pre-Tax Margin**		**Book Value**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	7.81	06/30/09	7.81	06/30/09	22.56
03/31/09	7.58	03/31/09	7.58	03/31/09	22.89
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	9.10	06/30/09	0.55	06/30/09	34.99
03/31/09	8.22	03/31/09	0.57	03/31/09	35.81

ATTACHMENT D

Selected Yields

	Recent (10/14/09)	3 Months Ago (7/15/09)	Year Ago (10/15/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	1.75
Federal Funds	0.00-0.25	0.00-0.25	1.50
Prime Rate	3.25	3.25	4.50
30-day CP (A1/P1)	0.16	0.33	4.47
3-month LIBOR	0.28	0.51	4.55
Bank CDs			
6-month	0.39	0.58	1.73
1-year	0.63	0.85	2.27
5-year	2.24	1.92	3.48
U.S. Treasury Securities			
3-month	0.07	0.18	0.21
6-month	0.15	0.27	0.88
1-year	0.32	0.47	1.07
5-year	2.33	2.51	2.82
10-year	3.41	3.60	3.95
10-year (inflation-protected)	1.46	1.85	3.07
30-year	4.26	4.49	4.19
30-year Zero	4.39	4.60	4.04



	Recent (10/14/09)	3 Months Ago (7/15/09)	Year Ago (10/15/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.65	3.41	6.06
FHLMC 6.5% (Gold)	2.47	2.75	5.96
FNMA 6.5%	2.21	2.59	5.91
FNMA ARM	2.56	2.98	3.87
Corporate Bonds			
Financial (10-year) A	5.45	6.62	8.19
Industrial (25/30-year) A	5.48	6.12	7.03
Utility (25/30-year) A	5.65	5.97	6.67
Utility (25/30-year) Baa/BBB	6.22	7.19	7.03
Foreign Bonds (10-Year)			
Canada	3.53	3.49	3.76
Germany	3.23	3.37	4.12
Japan	1.31	1.34	1.59
United Kingdom	3.50	3.80	4.71
Preferred Stocks			
Utility A	5.96	5.95	6.57
Financial A	7.00	7.67	7.33
Financial Adjustable A	5.49	5.49	5.49
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.06	4.71	5.47
25-Bond Index (Revs)	4.69	5.70	5.97
General Obligation Bonds (GOs)			
1-year Aaa	0.37	0.40	2.15
1-year A	0.80	1.10	2.25
5-year Aaa	1.90	2.07	3.70
5-year A	2.10	3.47	3.75
10-year Aaa	3.05	2.98	4.86
10-year A	3.45	4.50	5.06
25/30-year Aaa	4.10	4.59	5.99
25/30-year A	4.65	6.10	6.37
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.90	5.95	6.17
Electric AA	4.95	6.00	6.12
Housing AA	5.40	6.40	6.60
Hospital AA	5.60	6.35	6.65
Toll Road Aaa	5.00	5.95	6.15

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels 10/7/09	9/23/09	Change	Average Levels Over the Last... 12 Wks.	26 Wks.	52 Wks.
Excess Reserves	918434	854614	63820	796002	800839	706471
Borrowed Reserves	288565	307300	-18735	331341	421671	519593
Net Free/Borrowed Reserves	629869	547314	82555	464661	379168	186878

MONEY SUPPLY

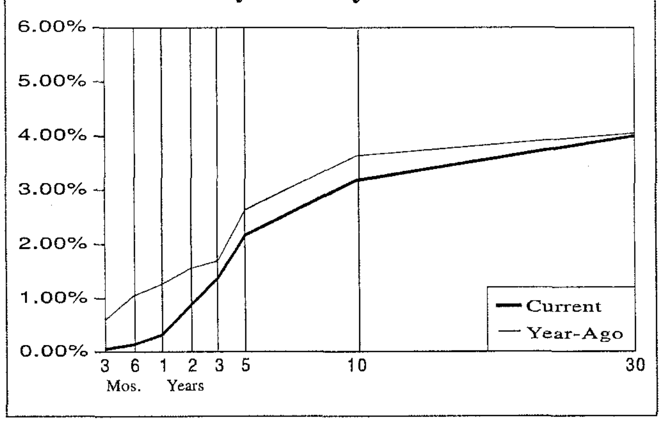
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels 9/28/09	9/21/09	Change	Growth Rates Over the Last... 3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1653.6	1639.8	13.8	0.2%	13.0%	10.9%
M2 (M1+savings+small time deposits)	8357.3	8309.8	47.5	0.4%	0.7%	5.5%

Selected Yields

	Recent (10/07/09)	3 Months Ago (7/08/09)	Year Ago (10/08/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	1.75
Federal Funds	0.00-0.25	0.00-0.25	1.50
Prime Rate	3.25	3.25	4.50
30-day CP (A1/P1)	0.16	0.36	4.55
3-month LIBOR	0.28	0.53	4.52
Bank CDs			
6-month	0.40	0.65	1.73
1-year	0.64	0.86	2.27
5-year	2.24	1.94	3.48
U.S. Treasury Securities			
3-month	0.06	0.18	0.61
6-month	0.14	0.25	1.05
1-year	0.32	0.44	1.26
5-year	2.17	2.23	2.63
10-year	3.18	3.31	3.64
10-year (inflation-protected)	1.42	1.76	2.66
30-year	4.00	4.19	4.05
30-year Zero	4.10	4.31	3.97

Treasury Security Yield Curve



	Recent (10/07/09)	3 Months Ago (7/08/09)	Year Ago (10/08/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.44	3.71	5.82
FHLMC 6.5% (Gold)	2.38	2.99	5.70
FNMA 6.5%	2.33	2.83	5.62
FNMA ARM	2.56	2.98	3.84
Corporate Bonds			
Financial (10-year) A	5.46	6.53	7.34
Industrial (25/30-year) A	5.28	5.82	6.66
Utility (25/30-year) A	5.44	5.71	6.58
Utility (25/30-year) Baa/BBB	5.95	6.85	6.93
Foreign Bonds (10-Year)			
Canada	3.29	3.28	3.59
Germany	3.12	3.28	3.80
Japan	1.27	1.30	1.39
United Kingdom	3.39	3.62	4.30
Preferred Stocks			
Utility A	6.29	7.59	6.99
Financial A	6.89	6.57	8.54
Financial Adjustable A	5.48	5.48	5.48
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	3.94	4.83	5.36
25-Bond Index (Revs)	4.69	5.75	5.69
General Obligation Bonds (GOs)			
1-year Aaa	0.37	0.43	2.18
1-year A	0.87	0.93	2.25
5-year Aaa	1.57	1.96	3.34
5-year A	2.77	2.40	3.44
10-year Aaa	2.57	3.09	4.31
10-year A	3.77	3.45	4.51
25/30-year Aaa	3.81	4.59	5.35
25/30-year A	5.01	5.05	5.70
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.85	5.55	5.80
Electric AA	4.90	5.65	5.90
Housing AA	5.20	5.80	6.00
Hospital AA	5.20	5.90	6.10
Toll Road Aaa	4.85	5.60	5.95

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	9/9/09	**8/26/09**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	823187	794531	28656	754073	773681	643433
Borrowed Reserves	320295	327647	-7352	369408	467326	513721
Net Free/Borrowed Reserves	502892	466884	36008	384665	306355	129711

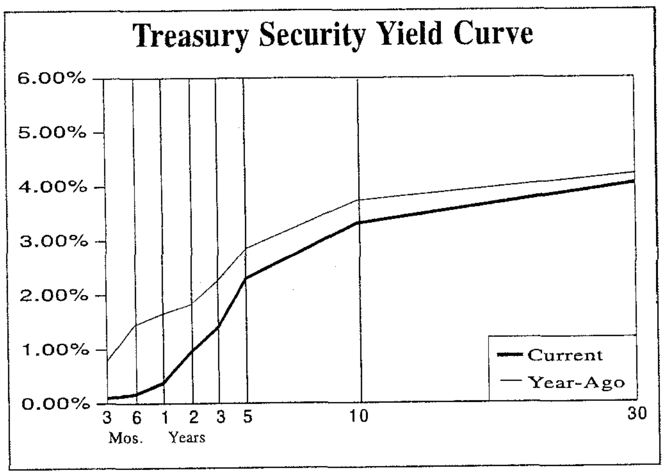
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	9/21/09	**9/14/09**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	1639.8	1670.9	-31.1	-6.8%	11.4%	11.3%
M2 (M1+savings+small time deposits)	8310.3	8318.3	-8.0	-3.5%	-1.1%	5.2%

Selected Yields

	Recent (9/30/09)	3 Months Ago (6/30/09)	Year Ago (10/01/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.18	0.41	3.05
3-month LIBOR	0.29	0.60	4.15
Bank CDs			
6-month	0.40	0.65	1.61
1-year	0.64	0.86	2.14
5-year	2.27	1.92	3.77
U.S. Treasury Securities			
3-month	0.11	0.18	0.80
6-month	0.17	0.34	1.45
1-year	0.38	0.48	1.66
5-year	2.31	2.56	2.86
10-year	3.31	3.53	3.74
10-year (inflation-protected)	1.53	1.80	2.25
30-year	4.05	4.33	4.22
30-year Zero	4.13	4.41	4.22



	Recent (9/30/09)	3 Months Ago (6/30/09)	Year Ago (10/01/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.63	3.77	5.64
FHLMC 6.5% (Gold)	2.82	3.23	5.63
FNMA 6.5%	2.60	3.07	5.54
FNMA ARM	2.62	2.53	3.88
Corporate Bonds			
Financial (10-year) A	5.61	6.87	7.25
Industrial (25/30-year) A	5.31	5.96	6.52
Utility (25/30-year) A	5.40	5.79	6.46
Utility (25/30-year) Baa/BBB	5.73	6.88	6.61
Foreign Bonds (10-Year)			
Canada	3.31	3.36	3.71
Germany	3.22	3.39	4.00
Japan	1.30	1.36	1.51
United Kingdom	3.59	3.69	4.43
Preferred Stocks			
Utility A	5.77	6.10	6.53
Financial A	6.61	7.75	7.78
Financial Adjustable A	5.48	5.48	5.48
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.04	4.79	5.23
25-Bond Index (Revs)	4.86	5.77	5.56
General Obligation Bonds (GOs)			
1-year Aaa	0.37	0.40	2.10
1-year A	0.80	1.10	2.20
5-year Aaa	1.57	2.07	3.32
5-year A	2.00	3.47	3.37
10-year Aaa	2.57	3.23	4.23
10-year A	2.95	4.75	4.43
25/30-year Aaa	3.92	4.66	5.29
25/30-year A	4.45	6.18	5.67
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.70	6.05	5.45
Electric AA	4.75	6.10	5.40
Housing AA	5.10	6.50	5.90
Hospital AA	5.25	6.45	5.95
Toll Road Aaa	4.75	6.05	5.40

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	9/23/09	9/9/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	854633	823202	31431	763053	790331	675003
Borrowed Reserves	307300	320295	-12995	347846	444263	518826
Net Free/Borrowed Reserves	547333	502907	44426	415208	346068	156178

MONEY SUPPLY

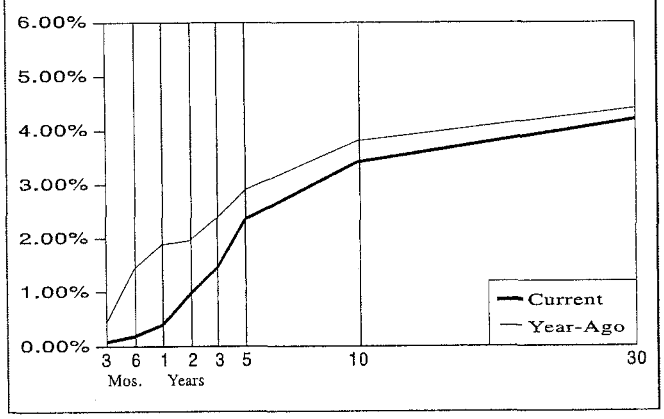
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	9/14/09	9/7/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1668.5	1666.8	1.7	3.0%	13.4%	16.7%
M2 (M1+savings+small time deposits)	8303.3	8307.2	-3.9	-3.9%	-1.4%	7.6%

Selected Yields

	Recent (9/23/09)	3 Months Ago (6/24/09)	Year Ago (9/24/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.21	0.44	2.85
3-month LIBOR	0.29	0.60	3.48
Bank CDs			
6-month	0.40	0.65	1.61
1-year	0.64	0.87	2.14
5-year	2.27	1.92	3.77
U.S. Treasury Securities			
3-month	0.09	0.18	0.46
6-month	0.19	0.31	1.43
1-year	0.40	0.46	1.89
5-year	2.37	2.71	2.91
10-year	3.42	3.69	3.81
10-year (inflation-protected)	1.60	1.88	1.99
30-year	4.20	4.43	4.41
30-year Zero	4.30	4.50	4.39

Treasury Security Yield Curve



	Recent (9/23/09)	3 Months Ago (6/24/09)	Year Ago (9/24/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.77	3.79	5.56
FHLMC 6.5% (Gold)	2.57	3.28	5.43
FNMA 6.5%	2.36	3.06	5.34
FNMA ARM	2.62	2.53	3.86
Corporate Bonds			
Financial (10-year) A	5.68	6.75	7.14
Industrial (25/30-year) A	5.47	6.07	6.53
Utility (25/30-year) A	5.58	5.89	6.50
Utility (25/30-year) Baa/BBB	6.14	7.30	6.74
Foreign Bonds (10-Year)			
Canada	3.42	3.45	3.66
Germany	3.37	3.42	4.16
Japan	1.35	1.39	1.49
United Kingdom	3.75	3.70	4.57
Preferred Stocks			
Utility A	6.08	6.05	6.85
Financial A	6.55	8.21	8.04
Financial Adjustable A	5.47	5.47	5.47
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.20	4.86	5.03
25-Bond Index (Revs)	4.98	5.78	5.44
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.40	2.15
1-year A	0.90	0.90	2.25
5-year Aaa	1.61	2.17	3.10
5-year A	3.01	2.60	3.20
10-year Aaa	2.65	3.27	4.02
10-year A	4.15	3.63	4.22
25/30-year Aaa	4.03	4.70	5.13
25/30-year A	5.60	5.15	5.45
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.35	5.80	5.55
Electric AA	5.40	5.90	5.60
Housing AA	5.80	6.10	5.90
Hospital AA	5.80	6.05	5.95
Toll Road Aaa	5.35	5.85	5.65

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	9/9/09	8/26/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	823201	794546	28655	754077	773683	643434
Borrowed Reserves	320295	327647	-7352	369408	467326	513721
Net Free/Borrowed Reserves	502906	466899	36007	384669	306357	129712

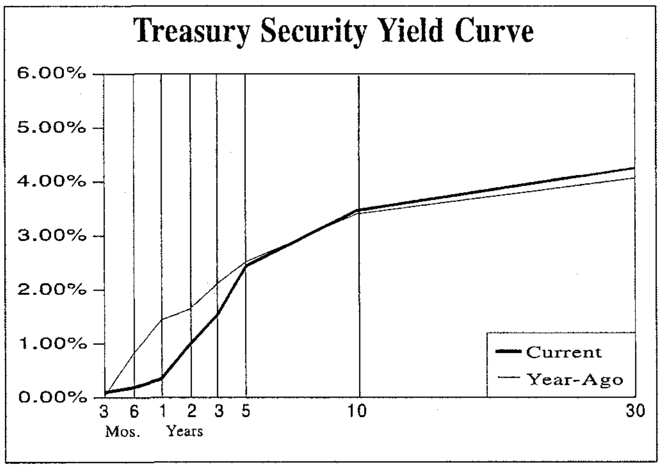
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	9/7/09	8/31/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1667.2	1635.6	31.6	9.2%	11.6%	18.0%
M2 (M1+savings+small time deposits)	8306.2	8293.6	12.6	-3.0%	-0.5%	8.0%

Selected Yields

	Recent (9/16/09)	3 Months Ago (6/17/09)	Year Ago (9/17/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.21	0.42	2.50
3-month LIBOR	0.29	0.61	3.06
Bank CDs			
6-month	0.40	0.66	1.61
1-year	0.65	0.87	2.26
5-year	2.30	1.92	4.10
U.S. Treasury Securities			
3-month	0.10	0.16	0.04
6-month	0.19	0.31	0.81
1-year	0.35	0.47	1.44
5-year	2.44	2.68	2.52
10-year	3.47	3.69	3.41
10-year (inflation-protected)	1.60	1.92	1.74
30-year	4.26	4.51	4.07
30-year Zero	4.37	4.60	4.11



	Recent (9/16/09)	3 Months Ago (6/17/09)	Year Ago (9/17/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.57	4.00	5.43
FHLMC 6.5% (Gold)	2.71	3.13	5.33
FNMA 6.5%	2.47	2.96	5.24
FNMA ARM	2.62	2.53	3.86
Corporate Bonds			
Financial (10-year) A	5.74	6.70	6.79
Industrial (25/30-year) A	5.55	6.13	6.08
Utility (25/30-year) A	5.59	5.95	5.94
Utility (25/30-year) Baa/BBB	6.21	7.54	6.51
Foreign Bonds (10-Year)			
Canada	3.38	3.44	3.44
Germany	3.34	3.48	4.02
Japan	1.33	1.47	1.50
United Kingdom	3.69	3.79	4.41
Preferred Stocks			
Utility A	6.29	5.47	6.56
Financial A	6.73	8.72	8.77
Financial Adjustable A	5.47	5.47	5.47
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.33	4.86	4.54
25-Bond Index (Revs)	5.33	5.76	5.09
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.40	1.73
1-year A	0.90	1.10	1.83
5-year Aaa	1.71	2.25	2.79
5-year A	2.15	3.65	2.84
10-year Aaa	2.78	3.33	3.59
10-year A	3.15	4.85	3.79
25/30-year Aaa	4.10	4.72	4.94
25/30-year A	4.56	6.24	5.32
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.85	6.30	5.05
Electric AA	4.90	6.35	5.00
Housing AA	5.30	6.65	5.40
Hospital AA	5.35	6.60	5.45
Toll Road Aaa	4.90	6.30	5.00

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	9/9/09	**8/26/09**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	823201	794546	28655	754077	773683	643434
Borrowed Reserves	320295	327647	-7352	369408	467326	513721
Net Free/Borrowed Reserves	502906	466899	36007	384669	306357	129712

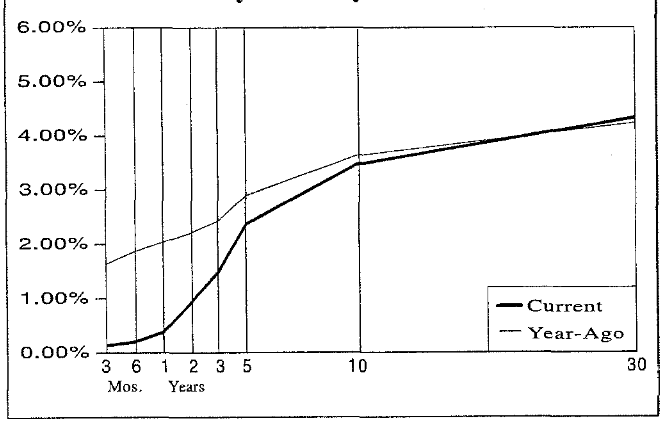
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	8/31/09	**8/24/09**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	1635.7	1639.0	-3.3	9.9%	9.6%	17.6%
M2 (M1+savings+small time deposits)	8293.7	8282.4	11.3	-3.4%	0.1%	7.6%

Selected Yields

	Recent (9/02/09)	3 Months Ago (6/10/09)	Year Ago (9/10/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.21	0.34	3.00
3-month LIBOR	0.30	0.64	2.82
Bank CDs			
6-month	0.42	0.66	1.60
1-year	0.72	0.87	2.26
5-year	2.30	1.92	4.15
U.S. Treasury Securities			
3-month	0.14	0.17	1.64
6-month	0.20	0.31	1.86
1-year	0.38	0.53	2.04
5-year	2.37	2.92	2.90
10-year	3.47	3.95	3.63
10-year (inflation-protected)	1.63	1.86	1.61
30-year	4.33	4.76	4.23
30-year Zero	4.46	4.84	4.27



	Recent (9/02/09)	3 Months Ago (6/10/09)	Year Ago (9/10/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.77	4.26	5.31
FHLMC 6.5% (Gold)	2.90	3.07	5.36
FNMA 6.5%	2.72	2.91	5.20
FNMA ARM	2.62	2.53	3.86
Corporate Bonds			
Financial (10-year) A	6.04	6.82	6.51
Industrial (25/30-year) A	5.63	6.50	6.08
Utility (25/30-year) A	5.65	6.28	6.04
Utility (25/30-year) Baa/BBB	6.40	7.76	6.49
Foreign Bonds (10-Year)			
Canada	3.42	3.64	3.46
Germany	3.42	3.69	4.07
Japan	1.33	1.55	1.52
United Kingdom	3.76	3.92	4.46
Preferred Stocks			
Utility A	5.84	7.62	6.12
Financial A	6.62	8.63	7.33
Financial Adjustable A	5.54	5.46	5.46
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.37	4.71	4.62
25-Bond Index (Revs)	5.43	5.63	5.15
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.40	1.58
1-year A	1.10	0.90	1.68
5-year Aaa	1.76	2.14	2.69
5-year A	3.16	2.57	2.79
10-year Aaa	2.88	3.21	3.48
10-year A	4.40	3.57	3.68
25/30-year Aaa	4.21	4.72	4.53
25/30-year A	5.75	5.16	4.77
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.50	5.85	4.87
Electric AA	5.55	5.95	4.92
Housing AA	6.05	6.25	5.13
Hospital AA	6.05	6.20	5.15
Toll Road Aaa	5.50	6.00	4.95

Federal Reserve Data

BANK RESERVES
(Two-Week Period; in Millions, Not Seasonally Adjusted)

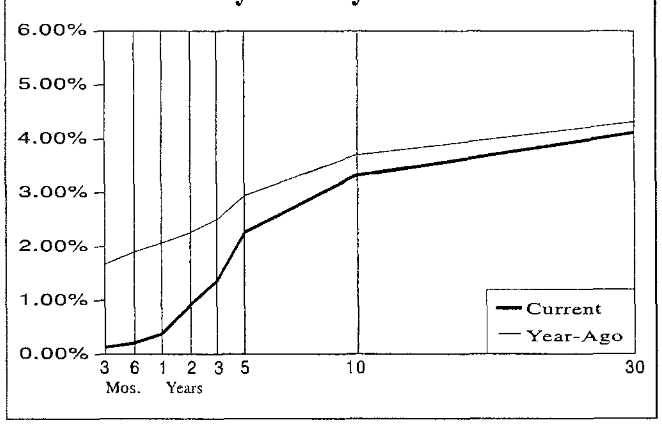
	Recent Levels			Average Levels Over the Last...		
	8/26/09	8/12/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	794546	708501	86045	756262	762985	613021
Borrowed Reserves	327647	340534	-12887	394750	486512	508084
Net Free/Borrowed Reserves	466899	367967	98932	361513	276473	104936

MONEY SUPPLY
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	8/24/09	8/17/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1639.0	1656.3	-17.3	9.4%	12.4%	18.0%
M2 (M1+savings+small time deposits)	8282.4	8310.5	-28.1	-4.3%	0.5%	7.6%

Selected Yields

	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.23	0.28	2.88
3-month LIBOR	0.33	0.64	2.81
Bank CDs			
6-month	0.42	0.70	1.60
1-year	0.72	0.92	2.26
5-year	2.25	1.92	4.15
U.S. Treasury Securities			
3-month	0.13	0.12	1.68
6-month	0.21	0.25	1.90
1-year	0.38	0.44	2.07
5-year	2.27	2.42	2.95
10-year	3.31	3.54	3.70
10-year (inflation-protected)	1.74	1.63	1.64
30-year	4.12	4.45	4.32
30-year Zero	4.22	4.53	4.37



Treasury Security Yield Curve

	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.92	3.37	5.60
FHLMC 6.5% (Gold)	3.07	2.89	5.67
FNMA 6.5%	2.85	2.78	5.48
FNMA ARM	2.62	2.53	3.89
Corporate Bonds			
Financial (10-year) A	5.79	6.82	6.69
Industrial (25/30-year) A	5.43	6.35	6.11
Utility (25/30-year) A	5.45	6.17	6.13
Utility (25/30-year) Baa/BBB	6.14	7.83	6.54
Foreign Bonds (10-Year)			
Canada	3.33	3.36	3.48
Germany	3.23	3.57	4.14
Japan	1.32	1.55	1.47
United Kingdom	3.55	3.79	4.50
Preferred Stocks			
Utility A	6.37	6.10	6.16
Financial A	5.94	8.35	6.97
Financial Adjustable A	5.53	5.53	5.53
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.53	4.61	4.68
25-Bond Index (Revs)	5.99	5.53	5.17
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.40	1.58
1-year A	0.90	1.13	1.68
5-year Aaa	1.80	2.02	2.74
5-year A	2.24	3.45	2.84
10-year Aaa	2.93	3.01	3.55
10-year A	3.30	4.55	3.75
25/30-year Aaa	4.36	4.64	4.69
25/30-year A	4.82	6.16	5.07
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.30	6.20	4.85
Electric AA	5.40	6.25	4.80
Housing AA	5.55	6.55	5.15
Hospital AA	5.60	6.50	5.25
Toll Road Aaa	5.35	6.30	4.80

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	8/26/09	**8/12/09**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	794546	708501	86045	756262	762985	613020
Borrowed Reserves	327647	340534	-12887	394750	486512	508084
Net Free/Borrowed Reserves	466899	367967	98932	361512	276473	104936

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

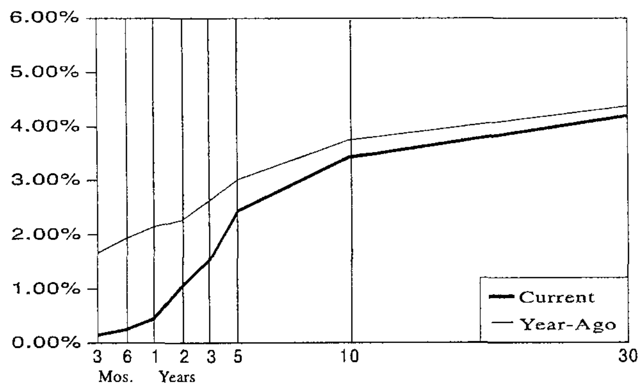
	Recent Levels			Growth Rates Over the Last...		
	8/17/09	**8/10/09**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	1658.2	1663.6	-5.4	17.9%	13.1%	19.9%
M2 (M1+savings+small time deposits)	8312.4	8318.3	-5.9	-1.5%	1.1%	8.1%

Selected Yields

	Recent (8/26/09)	3 Months Ago (5/27/09)	Year Ago (8/27/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	2.25
Federal Funds	0.00-0.25	0.00-0.25	2.00
Prime Rate	3.25	3.25	5.00
30-day CP (A1/P1)	0.24	0.31	2.84
3-month LIBOR	0.37	0.67	2.81
Bank CDs			
6-month	0.48	0.69	1.60
1-year	0.72	0.92	2.26
5-year	2.25	1.92	4.15
U.S. Treasury Securities			
3-month	0.15	0.16	1.67
6-month	0.25	0.29	1.94
1-year	0.45	0.47	2.15
5-year	2.44	2.44	3.01
10-year	3.43	3.74	3.76
10-year (inflation-protected)	1.70	1.81	1.51
30-year	4.20	4.63	4.38
30-year Zero	4.29	4.74	4.44

	Recent (8/26/09)	3 Months Ago (5/27/09)	Year Ago (8/27/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.95	3.34	5.62
FHLMC 6.5% (Gold)	2.95	2.61	5.66
FNMA 6.5%	2.73	2.28	5.56
FNMA ARM	2.75	2.78	4.02
Corporate Bonds			
Financial (10-year) A	6.13	7.00	6.60
Industrial (25/30-year) A	5.52	6.61	6.18
Utility (25/30-year) A	5.53	6.44	6.15
Utility (25/30-year) Baa/BBB	6.17	8.01	6.57
Foreign Bonds (10-Year)			
Canada	3.40	3.57	3.53
Germany	3.24	3.63	4.17
Japan	1.32	1.48	1.45
United Kingdom	3.55	3.75	4.51
Preferred Stocks			
Utility A	6.34	6.08	6.16
Financial A	5.99	8.28	7.08
Financial Adjustable A	5.52	5.53	5.53

Treasury Security Yield Curve



	Recent (8/26/09)	3 Months Ago (5/27/09)	Year Ago (8/27/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.58	4.44	4.64
25-Bond Index (Revs)	5.62	5.42	5.15
General Obligation Bonds (GOs)			
1-year Aaa	0.40	0.42	1.56
1-year A	1.10	1.15	1.66
5-year Aaa	1.81	1.87	2.79
5-year A	3.21	3.29	2.89
10-year Aaa	2.96	2.84	3.60
10-year A	4.48	4.40	3.80
25/30-year Aaa	4.54	4.41	4.71
25/30-year A	6.05	5.89	4.95
Revenue Bonds (Revs) (25/30-Year)			
Education AA	5.80	5.94	5.05
Electric AA	5.85	6.04	5.10
Housing AA	6.35	6.34	5.25
Hospital AA	6.35	6.29	5.30
Toll Road Aaa	5.80	6.09	5.10

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	8/12/09	7/29/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	708499	728888	-20389	768051	749904	583661
Borrowed Reserves	340534	347217	-6683	427197	503204	502158
Net Free/Borrowed Reserves	367965	381671	-13706	340854	246700	81504

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	8/10/09	8/3/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1663.8	1677.2	-13.4	17.9%	12.1%	18.7%
M2 (M1+savings+small time deposits)	8318.3	8323.9	-5.6	-0.7%	1.6%	7.9%

LITCHFIELD PARK SERVICE COMPANY
DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
TABLE OF CONTENTS TO SCHEDULES WAR

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
COST OF CAPITAL SUMMARY

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) RUCO ADJUSTED	(C) RUCO RECOMMENDED	(D) CAPITAL RATIO	(E) COST RATE	(F) WEIGHTED COST RATE
1	SHORT-TERM DEBT	$ -	$ -	$ -	0.00%	0.00%	
2	LONG-TERM DEBT	11,506,844	-	11,506,844	17.83%	6.39%	1.14%
3	COMMON EQUITY	53,027,765	-	53,027,765	82.17%	8.01%	6.58%
4	TOTAL CAPITALIZATION	$ 64,534,609	$ -	$ 64,534,609	100.00%		
5	**WEIGHTED AVERAGE COST OF CAPITAL**						**7.72%**

REFERENCES:
COLUMN (A): COMPANY SCHEDULE D-1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): LINES 1, 2 AND 3 DIVIDED BY LINE 4
COLUMN (E): SCHEDULE WAR-1, PAGES 2 AND 3
COLUMN (F): COLUMN (D) x COLUMN (E)

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
COST OF CAPITAL SUMMARY

WEIGHTED COST OF DEBT

LINE NO.	SYSTEM	(A) AMOUNT OUTSTANDING	(B) ANNUAL INTEREST	(C) INTEREST RATE	(D) COST RATE	(E) WEIGHTED COST
1	1999 INDUSTRIAL DEVELOPMENT AUTHORITY BONDS	$ 4,283,875	$ 251,892	5.88%	37.23%	2.19%
2	2001 INDUSTRIAL DEVELOPMENT AUTHORITY BONDS	7,222,969	483,939	6.70%	62.77%	4.21%
3	TOTALS	$ 11,506,844	$ 735,831		100.00%	
4	**WEIGHTED COST OF DEBT**					6.39%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE D-2
COLUMN (B): COMPANY SCHEDULE D-2
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): LINES 1 AND 2 DIVIDED BY LINE 3
COLUMN (E): COLUMN (C) x COLUMN (D)

COST OF COMMON EQUITY CALCULATION

LINE NO.			
1	**DCF METHODOLOGY**		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.94%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.50%	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	**AVERAGE OF DCF ESTIMATES**	**9.72%**	(LINE 2 + LINE 3) ÷ 2
5	**CAPM METHODOLOGY**		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	5.92%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	5.25%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	7.49%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	6.51%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	**AVERAGE OF CAPM ESTIMATES**	**6.29%**	(SUM OF LINES 6 THRU 9) ÷ 4
11	**AVERAGE OF DCF AND CAPM ESTIMATES**	**8.01%**	(SUM OF LINES 4 AND 10) ÷ 2

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
DCF COST OF EQUITY CAPITAL

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	2.83%	+	9.03%	=	11.86%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.09%	+	6.70%	=	9.79%
3	SWWC	SOUTHWEST WATER COMPANY	1.96%	+	7.20%	=	9.16%
4	WTR	AQUA AMERICA, INC.	3.18%	+	5.78%	=	8.96%
5	**WATER COMPANY AVERAGE**						**9.94%**
6	AGL	AGL RESOURCES, INC.	4.93%	+	5.95%	=	10.87%
7	ATO	ATMOS ENERGY CORP.	4.69%	+	4.42%	=	9.10%
8	LG	LACLEDE GROUP, INC.	4.72%	+	5.12%	=	9.84%
9	NJR	NEW JERSEY RESOURCES CORPORATION	3.42%	+	5.68%	=	9.10%
10	GAS	NICOR, INC.	5.10%	+	5.18%	=	10.28%
11	NWN	NORTHWEST NATURAL GAS CO.	3.74%	+	4.95%	=	8.69%
12	PNY	PIEDMONT NATURAL GAS COMPANY	4.51%	+	4.75%	=	9.27%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	3.39%	+	7.88%	=	11.28%
14	SWX	SOUTHWEST GAS CORPORATION	3.76%	+	4.00%	=	7.77%
15	WGL	WGL HOLDINGS, INC.	4.47%	+	4.38%	=	8.85%
16	**NATURAL GAS LDC AVERAGE**						**9.50%**

REFERENCES:
COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
DIVIDEND YIELD CALCULATION

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	÷	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	$1.00	÷	$35.29	=	2.83%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.18	÷	38.22	=	3.09%
3	SWWC	SOUTHWEST WATER COMPANY	0.10	÷	5.11	=	1.96%
4	WTR	AQUA AMERICA, INC.	0.54	÷	16.96	=	3.18%
5	**WATER COMPANY AVERAGE**						**2.77%**
6	AGL	AGL RESOURCES, INC.	$1.72	÷	$34.92	=	4.93%
7	ATO	ATMOS ENERGY CORP.	1.32	÷	28.16	=	4.69%
8	LG	LACLEDE GROUP, INC.	1.54	÷	32.64	=	4.72%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.24	÷	36.30	=	3.42%
10	GAS	NICOR, INC.	1.86	÷	36.45	=	5.10%
11	NWN	NORTHWEST NATURAL GAS CO.	1.58	÷	42.28	=	3.74%
12	PNY	PIEDMONT NATURAL GAS COMPANY	1.08	÷	23.94	=	4.51%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	1.19	÷	35.11	=	3.39%
14	SWX	SOUTHWEST GAS CORPORATION	0.95	÷	25.29	=	3.76%
15	WGL	WGL HOLDINGS, INC.	1.48	÷	33.10	=	4.47%
16	**NATURAL GAS LDC AVERAGE**						**4.27%**

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/23/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 08/24/2009 TO 10/16/2009 STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) / COLUMN (B)

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	6.20%	+	2.83%	=	9.03%
2	CWT	CALIFORNIA WATER SERVICE GROUP	6.00%	+	0.70%	=	6.70%
3	SWWC	SOUTHWEST WATER COMPANY	7.15%	+	0.05%	=	7.20%
4	WTR	AQUA AMERICA, INC.	5.50%	+	0.28%	=	5.78%
5	**WATER COMPANY AVERAGE**						7.18%
6	AGL	AGL RESOURCES, INC.	5.50%	+	0.45%	=	5.95%
7	ATO	ATMOS ENERGY CORP.	4.10%	+	0.32%	=	4.42%
8	LG	LACLEDE GROUP, INC.	4.50%	+	0.62%	=	5.12%
9	NJR	NEW JERSEY RESOURCES CORPORATION	5.10%	+	0.58%	=	5.68%
10	GAS	NICOR, INC.	5.10%	+	0.08%	=	5.18%
11	NWN	NORTHWEST NATURAL GAS CO.	4.60%	+	0.35%	=	4.95%
12	PNY	PIEDMONT NATURAL GAS COMPANY	4.75%	+	0.00%	=	4.75%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	7.00%	+	0.88%	=	7.88%
14	SWX	SOUTHWEST GAS CORPORATION	4.00%	+	0.00%	=	4.00%
15	WGL	WGL HOLDINGS, INC.	4.35%	+	0.03%	=	4.38%
16	**NATURAL GAS LDC AVERAGE**						5.23%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
SCHEDULE WAR - 4, PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	x	(B) { [((M ÷ B) + 1) ÷ 2] - 1 }	=	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	5.00%	x	{ [((2.13) + 1) ÷ 2] - 1 }	=	2.83%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.50%	x	{ [((1.94) + 1) ÷ 2] - 1 }	=	0.70%
3	SWWC	SOUTHWEST WATER COMPANY	1.10%	x	{ [((1.09) + 1) ÷ 2] - 1 }	=	0.05%
4	WTR	AQUA AMERICA, INC.	0.50%	x	{ [((2.11) + 1) ÷ 2] - 1 }	=	0.28%
5	**WATER COMPANY AVERAGE**						**0.96%**
6	AGL	AGL RESOURCES, INC.	1.75%	x	{ [((1.51) + 1) ÷ 2] - 1 }	=	0.45%
7	ATO	ATMOS ENERGY CORP.	3.75%	x	{ [((1.17) + 1) ÷ 2] - 1 }	=	0.32%
8	LG	LACLEDE GROUP, INC.	3.25%	x	{ [((1.38) + 1) ÷ 2] - 1 }	=	0.62%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.25%	x	{ [((1.93) + 1) ÷ 2] - 1 }	=	0.58%
10	GAS	NICOR, INC.	0.25%	x	{ [((1.65) + 1) ÷ 2] - 1 }	=	0.08%
11	NWN	NORTHWEST NATURAL GAS CO.	1.00%	x	{ [((1.70) + 1) ÷ 2] - 1 }	=	0.35%
12	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	x	{ [((1.88) + 1) ÷ 2] - 1 }	=	0.00%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	2.00%	x	{ [((1.88) + 1) ÷ 2] - 1 }	=	0.88%
14	SWX	SOUTHWEST GAS CORPORATION	2.50%	x	{ [((1.00) + 1) ÷ 2] - 1 }	=	0.00%
15	WGL	WGL HOLDINGS, INC.	0.10%	x	{ [((1.50) + 1) ÷ 2] - 1 }	=	0.03%
16	**NATURAL GAS LDC AVERAGE**						**0.33%**

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/23/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
DIVIDEND GROWTH COMPONENTS

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2004	0.1524		6.60%		1.01%	15.01	16.75	
2			2005	0.3182		8.50%		2.70%	15.72	16.80	
3			2006	0.3158		8.10%		2.56%	16.64	17.05	
4			2007	0.4074		9.30%		3.79%	17.53	17.23	
5			2008	0.3548		8.60%		3.05%	17.95	17.30	
6			GROWTH 2004 - 2008					2.62%	5.00%		0.81%
7			2009	0.4632		10.00%		4.63%		18.50	6.94%
8			2010	0.4732		10.50%		4.97%		18.75	4.11%
9			2012-14	0.5192		12.00%		6.23%	4.00%	20.00	2.94%
10											
11	CWT	CALIFORNIA WATER SERVICE GROUP	2004	0.2260		9.00%		2.03%	15.66	18.37	
12			2005	0.2245		9.30%		2.09%	15.79	18.39	
13			2006	0.1418		6.80%		0.96%	18.15	20.66	
14			2007	0.2267		8.10%		1.84%	18.50	20.67	
15			2008	0.3842		9.90%		3.80%	19.44	20.72	
16			GROWTH 2004 - 2008					2.15%	6.50%		3.06%
17			2009	0.4381		11.50%		5.04%		21.00	1.35%
18			2010	0.4591		10.50%		4.82%		21.50	1.86%
19			2012-14	0.4943		12.00%		5.93%	3.00%	22.50	1.66%
20											
21	SWWC	SOUTHWEST WATER COMPANY	2004	0.2174		3.60%		0.78%	6.17	20.36	
22			2005	0.4118		5.00%		2.06%	6.49	22.33	
23			2006	0.4750		5.60%		2.66%	6.98	23.80	
24			2007	0.2581		3.20%		0.83%	6.54	24.27	
25			2008	-5.0000		0.80%		NMF	4.55	24.90	
26			GROWTH 2004 - 2008					1.58%	7.00%		5.16%
27			2009	0.9333		3.00%		2.80%		25.00	0.40%
28			2010	0.9667		6.00%		5.80%		25.50	1.20%
29			2012-14	0.9000		8.00%		7.20%	-	26.50	1.25%
30											
31	WTR	AQUA AMERICA, INC.	2004	0.4219		10.70%		4.51%	5.89	127.18	
32			2005	0.4366		11.20%		4.89%	6.30	128.97	
33			2006	0.3714		10.00%		3.71%	6.96	132.33	
34			2007	0.3239		9.70%		3.14%	7.32	133.40	
35			2008	0.3014		9.30%		2.80%	7.82	135.37	
36			GROWTH 2004 - 2008					3.81%	10.00%		1.57%
37			2009	0.3415		10.50%		3.59%		136.00	0.47%
38			2010	0.3778		11.00%		4.16%		136.50	0.42%
39			2012-14	0.4800		11.50%		5.52%	6.50%	138.00	0.39%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/23/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AGL	AGL RESOURCES, INC.	2004	0.4956		11.00%		5.45%	18.06	76.70	
2			2005	0.4758		12.90%		6.14%	19.29	77.70	
3			2006	0.4559		13.20%		6.02%	20.71	77.70	
4			2007	0.3971		12.70%		5.04%	21.74	76.40	
5			2008	0.3801		12.60%		4.79%	21.48	76.90	
6			GROWTH 2004 - 2008					5.49%	10.00%		0.07%
7			2009	0.3630		11.50%		4.17%		78.00	1.43%
8			2010	0.3931		12.50%		4.91%		79.00	1.36%
9			2012-14	0.4303		14.00%		6.02%	1.50%	85.00	2.02%
10											
11	ATO	ATMOS ENERGY CORP.	2004	0.2278		7.60%		1.73%	18.05	62.80	
12			2005	0.2791		8.50%		2.37%	19.90	80.54	
13			2006	0.3700		9.80%		3.63%	20.16	81.74	
14			2007	0.3402		8.70%		2.96%	22.01	89.33	
15			2008	0.3500		8.80%		3.08%	22.60	90.81	
16			GROWTH 2004 - 2008					2.75%	7.50%		9.66%
17			2009	0.3714		9.00%		3.34%		92.50	1.86%
18			2010	0.3909		9.00%		3.52%		93.50	1.47%
19			2012-14	0.4400		9.50%		4.18%	4.00%	110.00	3.91%
20											
21	LG	LACLEDE GROUP, INC.	2004	0.2582		10.10%		2.61%	16.96	20.98	
22			2005	0.2789		10.90%		3.04%	17.31	21.17	
23			2006	0.4093		12.50%		5.12%	18.85	21.36	
24			2007	0.3723		11.60%		4.32%	19.79	21.65	
25			2008	0.4356		11.80%		5.14%	22.12	21.99	
26			GROWTH 2004 - 2008					4.04%	5.50%		1.18%
27			2009	0.4814		12.00%		5.78%		22.50	2.32%
28			2010	0.3962		11.00%		4.36%		23.00	2.27%
29			2012-14	0.4333		11.00%		4.77%	5.50%	26.00	3.41%
30											
31	NJR	NEW JERSEY RESOURCES CORPORATION	2004	0.4882		15.30%		7.47%	11.25	41.61	
32			2005	0.4859		17.00%		8.26%	10.60	41.32	
33			2006	0.4866		12.60%		6.13%	15.00	41.44	
34			2007	0.3484		10.10%		3.52%	15.50	41.61	
35			2008	0.5889		15.70%		9.25%	17.28	42.06	
36			GROWTH 2004 - 2008					6.93%	11.50%		0.27%
37			2009	0.4939		13.00%		6.42%		42.50	1.05%
38			2010	0.5259		13.00%		6.84%		43.00	1.11%
39			2012-14	0.5000		10.00%		5.00%	9.50%	45.00	1.36%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/11/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	NICOR, INC.	2004	0.1622		13.10%		2.12%	16.99	44.10	
2			2005	0.1806		12.50%		2.26%	18.36	44.18	
3			2006	0.3519		14.70%		5.17%	19.43	44.90	
4			2007	0.3779		14.30%		5.40%	20.58	45.90	
5			2008	0.2928		12.30%		3.60%	21.55	45.13	
6			GROWTH 2004 - 2008					3.71%	4.00%		0.58%
7			2009	0.2706		11.50%		3.11%		45.50	0.82%
8			2010	0.3474		12.50%		4.34%		45.50	0.41%
9			2012-14	0.4277		12.00%		5.13%	4.50%	45.50	0.16%
10											
11	NWN	NORTHWEST NATURAL GAS CO.	2004	0.3011		8.90%		2.68%	20.64	27.55	
12			2005	0.3744		9.90%		3.71%	21.28	27.58	
13			2006	0.4085		10.90%		4.45%	22.01	27.24	
14			2007	0.4783		12.50%		5.98%	22.52	26.41	
15			2008	0.4086		10.90%		4.45%	23.71	26.50	
16			GROWTH 2004 - 2008					4.25%	3.50%		-0.97%
17			2009	0.4386		11.00%		4.82%		26.50	0.00%
18			2010	0.4105		11.00%		4.52%		26.50	0.00%
19			2012-14	0.4203		11.00%		4.62%	5.00%	28.00	1.11%
20											
21	PNY	PIEDMONT NATURAL GAS COMPANY	2004	0.3307		11.10%		3.67%	11.15	76.67	
22			2005	0.3106		11.50%		3.57%	11.53	76.70	
23			2006	0.2520		11.00%		2.77%	11.83	74.61	
24			2007	0.2929		11.90%		3.49%	11.99	73.23	
25			2008	0.3087		12.40%		3.83%	12.11	73.26	
26			GROWTH 2004 - 2008					3.47%	6.00%		-1.13%
27			2009	0.3313		12.50%		4.14%		73.50	0.33%
28			2010	0.3471		13.00%		4.51%		73.50	0.16%
29			2012-14	0.3526		12.50%		4.41%	4.00%	73.00	-0.07%
30											
31	SJI	SOUTH JERSEY INDUSTIES, INC.	2004	0.4810		12.50%		6.01%	12.41	27.76	
32			2005	0.4971		12.40%		6.16%	13.50	28.98	
33			2006	0.6260		16.30%		10.20%	15.11	29.33	
34			2007	0.5167		12.80%		6.61%	16.25	29.61	
35			2008	0.5110		13.10%		6.69%	17.33	29.73	
36			GROWTH 2004 - 2008					7.14%	11.00%		1.73%
37			2009	0.5000		12.50%		6.25%		30.00	0.91%
38			2010	0.5170		13.50%		6.98%		31.00	2.11%
39			2012-14	0.5161		13.50%		6.97%	6.00%	33.00	2.11%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
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COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
DIVIDEND GROWTH COMPONENTS

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
SCHEDULE WAR - 5, PAGE 4 OF 4

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SWX	SOUTHWEST GAS CORPORATION	2004	0.5060		8.30%		4.20%	19.18	36.79	
2			2005	0.3440		6.40%		2.20%	19.10	39.33	
3			2006	0.5859		8.90%		5.21%	21.58	41.77	
4			2007	0.5590		8.50%		4.75%	22.98	42.81	
5			2008	0.3525		5.90%		2.08%	23.49	44.19	
6			GROWTH 2004 - 2008					3.69%	5.00%		4.69%
7			2009	0.4571		7.00%		3.20%		45.50	2.96%
8			2010	0.4737		7.50%		3.55%		47.00	3.13%
9			2012-14	0.5000		8.00%		4.00%	3.50%	50.00	2.50%
10											
11	WGL	WGL HOLDINGS, INC.	2004	0.3434		11.70%		4.02%	16.95	48.67	
12			2005	0.3803		11.70%		4.45%	17.80	48.65	
13			2006	0.3041		10.30%		3.13%	18.86	48.89	
14			2007	0.3476		10.40%		3.62%	19.83	49.45	
15			2008	0.4221		11.60%		4.90%	20.99	49.92	
16			GROWTH 2004 - 2008					4.02%	4.50%		0.64%
17			2009	0.4120		12.00%		4.94%		50.00	0.16%
18			2010	0.4078		11.50%		4.69%		50.00	0.08%
19			2012-14	0.3963		11.00%		4.36%	4.50%	50.00	0.03%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/11/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6 & 16, SIMPLE AVERAGE GROWTH, 2004 - 2008

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
GROWTH RATE COMPARISON

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) DPS	(C) BVPS	(D) VALUE LINE HISTORIC EPS	(D) DPS	(D) BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) DPS	(F) BVPS
1	AWR	9.03%	4.00%	9.50%	4.50%	4.00%	5.50%	2.00%	5.00%	4.93%	10.23%	2.96%	4.57%
2	CWT	6.70%	8.20%	4.75%	2.50%	3.50%	7.00%	0.50%	6.50%	4.71%	6.81%	0.87%	5.55%
3	SWWC	7.20%	-	12.00%	-22.50%	-	######	8.50%	7.00%	-1.00%	-35.42%	7.46%	-7.33%
4	WTR	5.78%	7.50%	10.00%	5.50%	6.50%	5.50%	8.00%	10.00%	7.57%	3.34%	8.35%	7.34%
5				9.06%	-2.50%	4.67%	2.00%	4.75%	7.13%		-3.76%	4.91%	2.53%
6	AVERAGES	7.18%	6.57%		3.74%			4.63%		4.05%		1.23%	

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) DPS	(C) BVPS	(D) VALUE LINE HISTORIC EPS	(D) DPS	(D) BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) DPS	(F) BVPS
1	AGL	5.95%	4.70%	3.50%	2.50%	1.50%	8.50%	8.00%	10.00%	5.53%	4.41%	9.94%	4.43%
2	ATO	4.42%	5.00%	4.00%	1.50%	4.00%	5.00%	1.50%	7.50%	4.07%	6.07%	1.60%	5.78%
3	LG	5.12%	3.00%	3.50%	2.50%	5.50%	9.50%	1.50%	5.50%	4.43%	9.74%	2.50%	6.87%
4	NJR	5.68%	6.50%	5.50%	5.50%	9.50%	7.50%	5.00%	11.50%	7.29%	12.26%	6.28%	11.33%
5	GAS	5.18%	4.20%	2.50%	-	4.50%	1.00%	0.50%	4.00%	2.78%	4.33%	0.00%	6.12%
6	NWN	4.95%	6.00%	5.00%	5.50%	5.00%	8.00%	3.00%	3.50%	5.14%	8.42%	3.99%	3.53%
7	PNY	4.75%	7.00%	5.50%	3.50%	4.00%	6.50%	4.50%	6.00%	5.29%	4.07%	4.92%	2.09%
8	SJI	7.88%	9.60%	5.50%	7.00%	6.00%	13.00%	6.00%	11.00%	8.30%	9.48%	7.86%	8.71%
9	SWX	4.00%	7.00%	4.50%	5.00%	3.50%	9.00%	1.00%	5.00%	5.00%	-4.34%	2.35%	5.20%
10	WGL	4.38%	5.00%	4.00%	3.00%	4.50%	4.00%	1.50%	4.50%	3.79%	5.36%	2.05%	5.49%
11				4.35%	4.00%	4.80%	7.20%	3.25%	6.85%		5.98%	4.15%	5.95%
12	AVERAGES	5.23%	5.80%		4.38%			5.77%		5.16%		5.36%	

REFERENCES:
COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/23/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/23/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 10 (NATURAL GAS)
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/23/2009 (WATER COMPANIES) AND 09/11/2009 (NATURAL GAS LDC's)

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
CAPM COST OF EQUITY CAPITAL

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
SCHEDULE WAR - 7, PAGE 1 OF 2

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.46%	+ [	0.80	x (	9.60%	-	5.40%	)]	=	5.82%
2	CWT	k	=	2.46%	+ [	0.75	x (	9.60%	-	5.40%	)]	=	5.61%
3	SWWC	k	=	2.46%	+ [	1.10	x (	9.60%	-	5.40%	)]	=	7.08%
4	WTR	k	=	2.46%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.19%
5	**WATER COMPANY AVERAGE**					0.83							5.92%
6	AGL	k	=	2.46%	+ [	0.75	x (	9.60%	-	5.40%	)]	=	5.61%
7	ATO	k	=	2.46%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.19%
8	LG	k	=	2.46%	+ [	0.60	x (	9.60%	-	5.40%	)]	=	4.98%
9	NJR	k	=	2.46%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.19%
10	GAS	k	=	2.46%	+ [	0.70	x (	9.60%	-	5.40%	)]	=	5.40%
11	NWN	k	=	2.46%	+ [	0.60	x (	9.60%	-	5.40%	)]	=	4.98%
12	PNY	k	=	2.46%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.19%
13	SJI	k	=	2.46%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.19%
14	SWX	k	=	2.46%	+ [	0.75	x (	9.60%	-	5.40%	)]	=	5.61%
15	WGL	k	=	2.46%	+ [	0.65	x (	9.60%	-	5.40%	)]	=	5.19%
16	**NATURAL GAS LDC AVERAGE**					0.67							5.25%

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$k = r_f + [\,ß\,(r_m - r_f)\,]$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 09/04/2009 THROUGH 10/23/2009 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2008 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PEI
THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.46%	+ [	0.80	x (	11.70%	-	5.60%	)]	=	7.34%
2	CWT	k	=	2.46%	+ [	0.75	x (	11.70%	-	5.60%	)]	=	7.03%
3	SWWC	k	=	2.46%	+ [	1.10	x (	11.70%	-	5.60%	)]	=	9.17%
4	WTR	k	=	2.46%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.42%
5	**WATER COMPANY AVERAGE**					0.83							7.49%
6	AGL	k	=	2.46%	+ [	0.75	x (	11.70%	-	5.60%	)]	=	7.03%
7	ATO	k	=	2.46%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.42%
8	LG	k	=	2.46%	+ [	0.60	x (	11.70%	-	5.60%	)]	=	6.12%
9	NJR	k	=	2.46%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.42%
10	GAS	k	=	2.46%	+ [	0.70	x (	11.70%	-	5.60%	)]	=	6.73%
11	NWN	k	=	2.46%	+ [	0.60	x (	11.70%	-	5.60%	)]	=	6.12%
12	PNY	k	=	2.46%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.42%
13	SJI	k	=	2.46%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.42%
14	SWX	k	=	2.46%	+ [	0.75	x (	11.70%	-	5.60%	)]	=	7.03%
15	WGL	k	=	2.46%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.42%
16	**NATURAL GAS LDC AVERAGE**					0.67							6.51%

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$k = r_f + [\,ß\,(r_m - r_f)\,]$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEYS "SELECTION & OPINIONS" PUBLICATION FROM 09/04/2009 THROUGH 10/23/2009 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2008 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PEF THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOOK.

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 $)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.39%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.25%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.03%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.96%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.61%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.81%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.93%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	2.34%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.55%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.19%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.38%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	2.83%	0.80%	6.92%	3.41%	3.88%	3.40%	5.95%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.17%	1.67%	1.61%	5.38%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.39%	2.90%	6.16%	4.19%	3.22%	3.15%	4.57%	5.38%	5.78%
17	2006	3.24%	2.80%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	2.85%	2.00%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	2008	3.58%	1.30%	5.09%	2.39%	1.92%	1.37%	4.28%	6.34%	6.64%
20	CURRENT	-1.40%	-1.00%	3.25%	0.50%	0.00% - 0.25%	7.00%	4.26%	5.65%	6.22%

REFERENCES:
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 10/23/2009
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 10/23/2009
COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003 MERGENT NEWS REPORTS

LITCHFIELD PARK SERVICE COMPANY
TEST YEAR ENDED SEPTEMBER 30, 2008
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. SW-01428A-09-0103
DOCKET NO. W-01427A-09-0104
SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

LINE NO.		AWR	PCT.	CWT	PCT.	SWWC	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	$ 266.5	46.2%	$ 287.5	41.6%	$ 190.6	62.6%	$ 1,248.1	54.1%	$ 498.2	51.4%
2											
3	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.5	0.2%	0.0	0.0%	0.1	0.0%
4											
5	COMMON EQUITY	310.5	53.8%	402.9	58.4%	113.3	37.2%	1,058.4	45.9%	471.3	48.6%
6											
7	TOTALS	$ 577.0	100%	$ 690.4	100%	$ 304.4	100%	$ 2,306.5	100%	$ 969.6	100%

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

LINE NO.											
1		AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	GAS	PCT.
2											
3	DEBT	$ 1,675.0	50.3%	$ 2,119.8	50.8%	$ 389.2	44.4%	$ 455.1	38.5%	$ 448.0	31.5%
4											
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.5	0.1%	0.0	0.0%	0.6	0.0%
6											
7	COMMON EQUITY	1,652.0	49.7%	2,052.5	49.2%	486.5	55.5%	727.0	61.5%	973.1	68.4%
8											
9	TOTALS	$ 3,327.0	100%	$ 4,172.3	100%	$ 876.2	100%	$ 1,182.1	100%	$ 1,421.7	100%
10											
11											
12		NWN	PCT.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.
13											
14	DEBT	$ 512.0	44.9%	$ 794.3	47.2%	$ 332.8	39.2%	$ 1,185.5	51.0%	$ 603.7	38.5%
15											
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	100.0	4.3%	28.2	1.8%
17											
18	COMMON EQUITY	628.4	55.1%	887.2	52.8%	515.3	60.8%	1,037.8	44.7%	935.1	59.7%
19											
20	TOTALS	$ 1,140.4	100%	$ 1,681.5	100%	$ 848.1	100%	$ 2,323.3	100%	$1,567.0	100%
21											
22											
23		NATURAL GAS LDC				WATER & LDC					
24		AVERAGE	PCT.			AVERAGE	PCT.				
25											
26	DEBT	$ 851.5	45.9%			$ 674.9	47.8%				
27											
28	PREFERRED STOCK	12.9	0.7%			6.5	0.5%				
29											
30	COMMON EQUITY	989.5	53.4%			730.4	51.7%				
31											
32	TOTALS	$ 1,854.0	100%			$ 1,411.7	100%				

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

LITCHFIELD PARK SERVICE COMPANY

DOCKET NO. SW-01428A-09-0103

DOCKET NO. W-01427A-09-0104

DIRECT TESTIMONY

OF

MATTHEW ROWELL

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 4, 2009

TABLE OF CONTENTS

I. Introduction

Q. Please state your name position and employer address.

A. Matthew J. Rowell

Member

Desert Mountain Analytical Services, PLLC ("DMAS")

PO Box 51628

Phoenix, AZ 85076

Q. Please state your background and qualifications in the field of utility regulation.

A. Appendix 1, attached to this testimony lists my educational qualifications and the utility matters in which I have participated.

Q. Please state the purpose of your testimony.

A. My testimony discusses the issue of design and construction problems at the Palm Valley Water Reclamation Facility ("PVWRF") and the allocation of affiliate operating expenses to Litchfield Park Service Company ("LPSCO" or "the Company") by its various affiliate entities. The issues of revenue requirement, rate base, plant and expense adjustments, and rate design are discussed in the Direct Testimony of Sonn S. Rowell (also of DMAS.) Cost of capital and issues related to the expansion of the PVWRF are discussed in the Direct Testimony of RUCO witness William Rigsby.

II. Background

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures (including an audit of underlying source data) necessary to understand the Company's filing as it relates to the rate base, operating income and revenue requirements. My recommendations are based on these analyses. I relied on the information contained in the Company's rate case application, (testimony and schedules) and responses to RUCO and Commission Staff data requests.

Q. What issues will you address in this testimony?

A I will address RUCO's recommended adjustments based primarily on an audit of underlying source data. I present RUCO's recommended rate base, revenue requirement and rate design. The issue of affiliate expenses and upgrades to the Palm Valley Water Reclamation Facility ("PVWRF") are addressed in the testimony of RUCO witness Matthew Rowell (also of DMAS.) Cost of capital and issues related to the expansion of the PVWRF are discussed in the testimony of RUCO witness William Rigsby.

III. Design and Construction Problems at the PVWRF

Q. Please discuss LPSCO's wastewater plant additions since the last rate case.

A. The last rate case used the calendar year 2000 as the test year. Since that time, plant additions have been substantial. Table one shows plant additions by year from 2001 to the end of the current rate case test year as submitted by the Company.

Table 1. LPSCO Waste Water Plant Additions (adjusted) per LPSCO Schedule B2

Year	Add/(ret)
2001	$2,216,710
2002	$14,910,039
2003	$144,272
2004	$6,696,665
2005	$5,721,506
2006	$3,111,106
2007	$2,285,823
2008 (Through Sep)	$12,897,735

The $14.9 million addition in 2002 results from the Palm Valley Water Reclamation Facility ("PVWRF") going into service. The PVWRF is a waste water processing plant that went into service with an average capacity of 4.1 mgd.

Q. Has LPSCO needed to expand the capacity of the PVWRF since 2002 due to customer growth?

A. According to the Company, no. The initial 4.1 mgd average capacity of the PVWRF has been and is currently sufficient to serve all of LPSCO's customers. Additionally, LPSCO indicated that they have no plans to begin construction necessary to increase the capacity of the PVWRF until late 2010 at the earliest (Response to RUCO Data Request MJR 2.9.)

Q. What accounts for the substantial plant additions made during the test year portion of 2008?

A. LPSCO indicates that a large investment in plant was necessary to remedy deficiencies at the PVWRF. In his Direct Testimony, LPSCO witness Greg Sorensen states: "…in the summer of 2007, the plant had two spill events that confirmed that the plant, *as originally designed and constructed* by our predecessor owners, was lacking certain redundancy capabilities and needed some upgrades to achieve an acceptable level of reliability." (Emphasis added.) Additionally, in response to RUCO data request MJR 2.14 the Company provided excerpts from a report developed by McBride Engineering Solutions, Inc. ("MES") that document several design problems at the PVWRF that resulted in excessive odors, insufficient reliability and a lack of redundancy capability. (The excerpts from the MES report were provided pursuant to a confidentiality agreement so we have not provided direct quotes from the report.)

Q. So as originally designed and constructed the PVWRF had significant problems?

A. Yes. The information provided by LPSCO indicates that there were significant design problems at the PVWRF. Correcting these problems necessitated significant upgrades. The additional plant associated with those upgrades was put into service during the test year.

Q. Do you believe it is fair that LPSCO customers should bear the full cost of the upgrades necessitated by the PVWRF's design problems?

A. No. Utilities have an obligation to design and build plant that meets acceptable levels of reliability. It is inherently unfair to saddle the customers with the excess and duplicative costs that result when utilities fail in that obligation.

Q. What do you recommend regarding LPSCO's 2008 waste water plant additions?

A. We believe the costs of the PVWRF upgrades necessitated by the PVWRF's design problems should be shared between the shareholders and the customers. At page 7 of his Direct Testimony Mr. Sorenesen states that the Company spent $7 million on improvements to the PVWRF to correct the deficiencies resulting from the plant's design problems. We propose that the costs of these improvements be split 50/50 between the ratepayers and the shareholders. This results in a disallowance of $3.5 million of test year plant additions.

Q. The PVWRF was originally built by LPSCO's former owners not its current owner (Algonquin.) Does this fact affect RUCO's recommendation that a portion of test year plant additions be disallowed?

A. No. Prior to making a purchase as substantial as LPSCO, sound business practices would require a thorough review of LPSCO's facilities. Design problems identified at that stage would have provided the purchaser with significant leverage in price negotiations.

Additionally, allowing for full recovery of the PVWRF redesign costs based on the fact that the facility changed hands would send the wrong signal to the industry. Companies looking to purchase utilities in Arizona would have less incentive to do proper due diligence if they know that the costs of fixing any existing problems could be imposed on the ratepayers. Similarly, if utilities that are building plant know that any problems with the plant can be dispensed with through a sale to another entity their incentive to build the plant properly in the first place will be diminished.

IV. Affiliate Operating Expenses allocated to LPSCO

Q. Have you examined the method the Company uses to allocate affiliate costs to LPSCO's water and sewer divisions?

A. Yes. The Company has indicated the following: "The new method of allocation is to charge all direct operations labor costs related to LPSCO via timesheets. All customer service and financial related costs are allocated based on customer counts to all AWS-operated utilities, and all administration costs are allocated based on a 4 factor formula to all Algonquin-owned utilities. This allocation is based on a weighted average of rate base, customer counts, wages, and operating expenses for all our utilities. Engineering services have remained allocating their time via the job costing timesheet process but have moved from market chargeable rates to cost recovery rates".[1]

Q. Has the Company used this method of allocation in the past?

A. No. This is a new method being used in this and other current Algonquin rate cases.

Q. What is the effect of this new allocation method on LPSCO?

A. In response to RUCO data request MJR 3.3(b) the Company provided a comparison of its old and new allocation methods that indicated that the new allocation method allocates $250,577 less to LPSCO water and $505,816 more to LPSCO sewer relative to their previous method of allocating affiliate costs.

Q. Were these changes the result of the reallocation only?

A. No. The Company's response to MJR 3.3(b) indicates that in addition to reallocating the affiliate costs, $136,903 in *additional* affiliate costs were allocated to the various Algonquin owned water and waste water companies under the new allocation method.

[1] Response to RUCO data request MJR 2.4

Q. What is the source of this $136,903 increase in allocated costs?

A. I have been unable to determine the source of this $136,903 increase in allocated costs.

Q. Do you know how much was allocated to LPSCO in the test year based on LPSCO's new allocation method?

A. Table 2 below shows the amount allocated to LPSCO under the new allocation method. This information was provided by LPSCO in response to RUCO data request MJR 3.3(b). The Company provided the following numbers:

Table 2. LPSCO Affiliate Allocations

	Allocated to LPSCO **Water**	Allocated to LPSCO **Sewer**	Total	Allocation Method
Ops Costs	806,047	924,018	1,730,065	Timesheets
Act/Billing	430,806	477,294	908,100	Customer Count
Overhead Costs	705,667	691,664	1,397,331	4 – factor
Total	1,942,520	2,092,976	4,035,497	

Q. Were you able to reconcile the allocated amounts as described in response to MJR 3.3(b) with the Company's rate case application?

A. The Company has indicated that the amounts allocated by the above described method are booked to expense accounts 636 Contractual Services

– Other and 736 Contractual Services – Other for the water and sewer divisions, respectively.

The Company did not actually use the above described allocation process to determine and record transactions in these accounts through the test year. Rather, for purposes of the rate case filing, the Company's expenses were trued up to conform with the allocation method by Mr. Bourassa's adjustment(s) number 11 (Mr. Bourassa makes separate adjustments no. 11 for the water and for the waste water divisions.)

Initially, I could not reconcile the affiliate costs contained in accounts 636 and 736 with the amounts provided in response to RUCO Data Request MJR 3.3(b.) However, reviewing LPSCO's response to Staff Data Request JMM 5.3 revealed that the allocation method described in its response to MJR 3.3(b) (and summarized in Table 2 above) only pertained to allocations from Algonquin Water Services ("AWS"), not to amounts allocated from Algonquin Power Trust ("APT".) Based on the Company's response to Staff Data Request JMM 5.3 and adjustment(s) number 11 made by Company witness Bourassa, the allocations from AWS contained in accounts 636 and 736 do reconcile with the above described allocation method.

Q. What sort of transactions has the Company booked to accounts 636 and 736?

A. In response to Staff data requests JMM 1.42 and 1.67 the Company provided back-up detailing each transaction booked to these accounts. For purposes of responding to JMM 1.42 and 1.67 the Company broke each of the accounts into four broad categories. Table 3 below summarizes the content of accounts 636 and 736 as provided in the rate case application.

Table 3 Contractual Services - Other

	Water (636)	Sewer (736)	Total
Central Office Costs - Algonquin Power Trust (APT)			
Management Fees	273,956	182,637	456,593
Accounting fees and costs	2,689	2,747	5,436
HR costs and fees	12,927	5,276	18,203
IT costs	990	427	1,417
General OPS	1,146	764	1,910
Total	**291,708**	**191,850**	**483,558**
Contract Services - Algonquin Water Services (AWS)			
Water/Waste Fee	559,787	538,599	1,098,385
Operating Costs	861,949	613,862	1,475,811
OPS fee	463,158	333,776	796,933
Overhead	85,521	57,014	142,535
To amortize arsenic media proj	8,025		8,025
Accounting Fee	56,843	52,416	109,259
Other (credits)	(58,055)	(100,059)	158,114)
ACC Fee	53,588	35,725	89,313
8600-010008-act	64,764	62,811	127,575
Recon fees to 4 factor	(575,400)	(383,600)	(959,001)
reclassed to wtr ops fee		50,030	50,030
Total	**1,520,179**	**1,260,574**	**2,780,753**
Admin Allocation AWS			

Recon fees to 4 factor	728,574	485,716	1,214,290
Contractual Services Other			
Services provided by outside (non-affiliate) vendors	148,748	431,175	579,923
Grand Total	**2,689,209**	**2,369,315**	**5,058,525**

Q. Are there issues with the costs allocated to LPSCO by AWS?

A. Yes. In response to JMM 5.3 the Company provided the operating costs that were allocated to LPSCO's water and sewer divisions by the 4 factor method. These numbers are close to but do not match the operating costs allocated via the 4 factor method as shown in the Company's response to MJR 3.3(b).

Additionally, the invoices provided to support the AWS allocations (provided in response to Staff data requests JMM 1.42 and 1.67) essentially contain no detail. Thus, it is impossible to audit the transactions between AWS and LPSCO based on those invoices. The same is true concerning the invoices between APT and LPSCO provided in response to Staff's 5th set of data requests.

Q. What do you recommend regarding the costs allocated to LPSCO by Algonquin Water Services?

A. The lack of backup for these costs could support a recommendation that all of these costs be disallowed. However, AWS does actually provide services to

LPSCO that are necessary for the provision of utility service. Also, the amounts allocated by AWS (after RUCO's adjustments) when taken on a per-customer basis are not out of line with what is typically charged by management companies to water utilities. Because of this we recommend that these costs be allowed, with one exception. The one exception is the allocations labeled as "Recon fees to 4 factor." The Company has provided no explanation for what these allocations are, they do not appear to be necessary for the provision of utility services, and they cannot be reconciled with the Company's description of how their 4 factor allocation method works. Therefore we recommend disallowance of the allocations labeled "Recon fees to 4 factor" which net to $153,174 for LPSCO Water and $102,116 for LPSCO Sewer.

Q. *Do you have concerns with the Central Office Costs charged to LPSCO by Algonquin Power Trust?*

A. Yes. In its rate case application and in response to several data requests the Company described the allocation of affiliate costs by indicating that operating costs are billed out by time sheets. Accounting and billing costs are allocated based on customer counts and overhead costs are allocated by the 4-factor method. No mention was made of the additional layer of allocated costs from Algonquin Power Trust. It was not until Staff specifically asked about these costs in its Data Request JMM 5.3 that the Company provided any information about this additional layer of affiliate costs allocated to LPSCO.

The Central Office Costs charged to LPSCO by Algonquin Power Trust are of concern for several reasons:

- In response to Staff data request JMM 5.3 the Company indicated that \$250,979 and \$267,462 were allocated to LPSCO's water and sewer divisions respectively by Algonquin Power Trust. However, \$291,708 and \$191,850 were actually allocated to LPSCO's water and sewer divisions, respectively, by Algonquin Power Trust.

- In January of 2008 (during the test year) the management fees charged to LPSCO by Algonquin Power Trust increased from \$13,200 to \$26,040 per month for LPSCO water and \$8,800 to \$17,360 per month for LPSCO sewer. The Company has provided no explanation for this increase in management fees from Algonquin Power Trust.

- The invoices provided by Algonquin Power Trust essentially contain no detail. Thus, it is impossible to audit the transactions between Algonquin Power Trust and LPSCO based on those invoices.

- Most importantly, in response to JMM 5.3 the Company provided explanations for the various categories of costs allocated to LPSCO by Algonquin Power Trust. These explanations were insufficient and did not establish that the "services" provided by Algonquin Power Trust are necessary for the provision of water and waste water service.

For all of these reasons we recommend that the Central Office Costs allocated to LPSCO by Algonquin Power Trust (\$291,708 for water and \$191,850 for sewer) be disallowed.

Q. Are there other issues regarding LPSCO's affiliate relations that are concerning?

A. There are several other issues that if taken alone would not be extremely concerning but taken together and in light of the above discussion raise to the level of concern. I believe the Commission should be aware of these issues so they are listed here:

- No manual or contracts: Algonquin does not have and does not plan to produce a manual or other document that details the cost allocation process. (RUCO DR MJR 3.8) Additionally, there are no contracts between LPSCO and any of the Algonquin affiliates. (RUCO DR MJR 3.2) Thus, it appears that Algonquin has no safeguards that would prevent the allocation process from taking place on an ad hoc basis.

- Organizational Chart: The organizational chart for the Algonquin organization provided in response to JMM 1.17 is inaccurate and incomplete. For example, APT (the entity that charged LPSCO $483,558 during the test year) does not appear on the organizational chart and AWS and Algonquin Power Systems are portrayed as independent entities.

- Affiliates other than water and sewer: The allocation methods described above allocate parent level costs across Algonquin's water and waste water utilities (located primarily in Arizona, Missouri and Texas.) In addition, to these utilities several electric generation companies fall under the Algonquin umbrella. It is not clear from any of the information provided by the Company (e.g. organizational charts) how these electric generation companies fit into the Algonquin corporate structure and how APT's costs are allocated between its water/waste water holdings and its electric generation holdings. Additionally, the rent invoices for APT provided in response to Staff Data Request JMM 5.5 indicates that an entity called Algonquin Power Property Limited Partnership is APT's landlord (in Ontario.) Algonquin Power Property Limited Partnership is presumably another Algonquin affiliate; but it is not clear how it fits into the Algonquin corporate structure.

- Bank fees: The banking fees that AWS passes through to LPSCO contain several inappropriate charges (see the Direct Testimony of RUCO witness Sonn Rowell, Water Division Operating Income Adjustment No. 8 and Wastewater Division Operating Income Adjustment No. 9 for a discussion of this issue.)

- Convoluted basic accounting system: The accounting system used to track day to day activity seems unnecessarily convoluted. For example, examination of Company provided invoices show that when an AWS employee makes a purchase at Lowe's for material necessary for repairs at LPSCO, that purchase is booked at the AWS level and then allocated down to LPSCO. Conceivably, purchases such as this could be initially booked directly to LPSCO which would eliminate several steps in the cost allocation process.

- Name Changes: AWS recently changed its name to Liberty Water. Several years ago the name was changed from New Spring Water to AWS. In spite of several years passing since the name New Spring Water was used officially it still shows up on documents produced in the test year.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of any of the witnesses for LPSCO constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your direct testimony on LPSCO?

A. Yes, it does.

Qualifications of Matthew Rowell

Professional History

Desert Mountain Analytical Services, PLLC 2007 – Present
Member

Prepare testimony and analysis for utilities regarding regulatory issues. Most recently I prepared and sponsored testimony on behalf of Global Water regarding their multi-system rate case, Docket No. W-20446A-09-0080 and their Notice of Intent to Restructure, Docket No. W-20446A-08-0247.

Arizona Corporation Commission 1996 to 2007

Chief Economist (July 2001 to February 2007)
Was responsible for supervising a staff of nine professionals who analyzed and produced testimony or staff reports on a wide variety of energy and telecommunications issues. Recent cases for which I provided testimony myself include:

APS Rate Case E-01345A-05-0816: Provided testimony on staff's position on APS' proposed Environmental Improvement Charge. I also acted as the overall case manager and was responsible for coordinating all of staff's testimony.

APS Application to acquire a power plant in the Yuma area E-01345A-06-0464: Provided testimony in support of APS' application. Interveners in this case raised a variety of complex issues that needed to be addressed.

Southern California Edison's application to build a high voltage power line linking Arizona to Southern California L-00000A-06-0295-00130: Provided testimony detailing the potential economic effects of SCE's proposed power line.

Accipiter's complaint against Cox Communications regarding the Vistancia development T-03471A-05-0064: Provided written testimony regarding Accipiter's allegations concerning Cox's dealings with the developers of Vistancia.

Significant past responsibilities included managing staff's case (including negotiating a settlement agreement) in APS' 2003 rate case, negotiating the settlement between staff and Qwest regarding three enforcement dockets, supervising the "independent monitor" of APS' and Tucson Electric Power's (TEP) wholesale power procurement, providing testimony on Qwest's noncompliance with the Commission's wholesale rate order, managing staff's case regarding Qwest's alleged noncompliance with the Federal Telecommunications Act, and acting as staff's lead witness in the Commission's reevaluation of the electric competition rules which resulted in the suspension of APS' and TEP's obligation to divest their generation assets.

Economist (October 1996 to July 2001)
Significant responsibilities included supervising the testing of Qwest's operational support systems (OSS), analyzing Qwest's compliance with Section 271 of the Federal Telecommunications Act, providing testimony on the geographic de-averaging of Qwest's Unbundled Network Element prices, and acting as Chairman of the Commission's Water Task Force.

Arizona Department of Transportation, Phoenix, AZ 1996, 1998, and 1999

Research Analyst

Authored research reports on the costs and benefits of traffic demand management policies, the relative merit of various highway-financing techniques, and air pollution reduction technologies.

Arizona State University, Tempe, AZ 1992-1996.

Lecturer-economics 1994-1996

Responsible for teaching microeconomics classes requiring the creation of lectures and tests as well as full responsibility for assigning grades.

Teaching assistant 1992-1994

Responsible for assisting professors in administering tests, grading, and teaching.

Education

Master of Science and ABD Economics, 1995, Arizona State University.

I have successfully completed all course work and exams necessary for a Ph.D. Course work included an emphasis in industrial organization and extensive experience with statistical analysis, public sector economics, and financial economics.

Bachelor of Science Economics, 1992, Florida State University.

Minors: Philosophy, Statistics

LITCHFIELD PARK SERVICE COMPANY

DOCKET NO. SW-01428A-09-0103

DOCKET NO. W-01427A-09-0104

DIRECT TESTIMONY

OF

SONN S. ROWELL, CPA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 4, 2009

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I. Introduction

Q. Please state your name position and employer address.

A. Sonn S. Rowell, Member, Desert Mountain Analytical Services, PLLC ("DMAS")

PO Box 51628, Phoenix, AZ 85076

Q. Please state your background and qualifications in the field of utility regulation.

A. Appendix 1, attached to this testimony lists my educational qualifications and the utility matters I have participated in.

Q. Please state the purpose of your testimony.

A. My testimony describes RUCO's recommended adjustments made to Litchfield Park Service Company's ("LPSCO" or the "Company") pending water and wastewater rate case. This testimony presents RUCO's recommended rate base, revenue requirement and rate design.

II. Background

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures (including an audit of underlying source data) necessary to understand the Company's filing as it relates to the rate base, operating income and revenue requirements. My recommendations are based on these analyses. I relied on the information contained in the Company's rate case application, (testimony and schedules) and responses to RUCO and Commission Staff data requests.

Q. What issues will you address in this testimony?

A I will address RUCO's recommended adjustments based primarily on an audit of underlying source data. I present RUCO's recommended rate base, revenue requirement and rate design. The issues of affiliate expenses and upgrades to the Palm Valley Water Reclamation Facility ("PVWRF") are addressed in the Direct Testimony of Matthew Rowell (also of DMAS.) Cost of capital and issues related to the expansion of the PVWRF are discussed in the Direct Testimony of RUCO witness William Rigsby.

Q. Please identify the exhibits you are sponsoring.

A. Exhibit 1 contains schedules detailing the recommended adjustments to expenses, plant in service and rate base of LPSCO's water division. It also shows RUCO's recommended revenue requirement and rate design for LPSCO's water division.

Exhibit 2 contains the same information for LPSCO's wastewater division.

III. Water Division

1. Revenue Requirement (Water) Schedule 1

Q. What is RUCO's proposed revenue requirement for LPSCO's water division?

A. RUCO is recommending a revenue requirement of $10,923,684 for LPSCO's water division. This represents a 58.8% increase above RUCO's adjusted test year water revenues. This compares with LPSCO's request for a revenue requirement of $13,984,331 for its water division, which would be a 116% increase above LPSCO's adjusted test year water revenues.

2. Rate Base Adjustments (Water) Schedule 2

Q. Please explain Rate Base Adjustment No. 1.

A. This adjustment decreases accumulated depreciation by $189,493 to account for the difference between RUCO's recommended accumulated depreciation balance and the Company's accumulated depreciation balance as filed. It also reduces Utility Plant in Service ("UPIS") by $841,129 to account for RUCO's recommended reductions in Plant in Service.

Q. Please explain Rate Base Adjustment No.2.

A. This adjustment reduces rate base by $48,150 to account for the 2% cap on the (amortized) debt issuance costs associated with LPSCO's IDA bonds.

Q. Why did RUCO make an adjustment reducing the Company's Unamortized Debt Issuance Costs?

A. The Company has two outstanding Series of Industrial Development Authority (IDA) Water and Sewer Revenue Bonds, the first issued in 1999 in the aggregate face amount of $5,335,000, and the second, in 2001, in the aggregate face amount of $7,500,000. Pursuant to the Loan Agreement for each IDA Bond Series, Article II, Section 2.2 (w) limits the debt issuance costs financed by the Project Bonds to two percent (2%) of the aggregate face amount of the Project Bonds. Accordingly, Adjustment No. 2 reduces the Company's allowable debt issuance cost to two percent of the aggregate face amount for both the 1999 and 2001 Series IDA Bonds, with the calculation of the unamortized portion of those costs, as of the Test Year ended September 30, 2008, determined by the number of months of amortization remaining before each respective IDA Bond Series matures.

Q. What was the total amount of the adjustment made by RUCO to this deferred expense account?

A. RUCO reduced the Company's Unamortized Debt Issuance Cost by a total of $96,301. As filed, the Company reported a balance of $268,542 in Unamortized Debt Issuance Costs, and as adjusted, RUCO determined the proper figure is $172,242. The Company allocated its Unamortized Debt Issuance Costs equally between Operating Divisions, with both the Water and Wastewater Division reporting a deferred expense for this item of $134,271

($268,542 / 2). As a consequence, Adjustment no. 2 reduces Unamortized Debt Issuance Costs for each Operating Division by $48,150 ($96,301 / 2).

Q. To the extent the Company may have incurred debt issuance costs in excess of two percent of the aggregate face amount of its IDA Series Bonds, why does RUCO feel it would be inappropriate to allow recovery of that additional expense in rates?

A. The IDA issuing authority limited debt issuance costs to 2% of the aggregate face value of the bond proceeds obtained. To the extent, the Company incurred debt issuance costs in excess of that 2% figure, LPSCO is unable to produce any documentation to that effect. RUCO Data Request MJR 2.24(a) asked the Company to provide supporting documentation for all debt issuance costs incurred for the 1999 and 2001 IDA Series Bonds. In response LPSCO indicted it was unable to find the information requested, citing the fact that Algonquin bought LPSCO in 2003 after the bonds had been issued.

Q. Please Explain Rate Base Adjustment No. 3.

A. This adjustment reduces rate base by $8,256 that was essentially double-counted under the Company's proposed recovery of the deferred regulatory asset associated with the TCE plume.

3. Adjustments to Test Year Plant (Water) Schedule 3

Q. Please explain the test year plant adjustments.

A. Plant Adjustment No. 1 replaces $21,100 in organization costs that were allowed per LPSCO's last rate case decision.

Plant Adjustment Nos. 2 through 7 replace affiliate profit that the Company had removed from various plant accounts. This affiliate profit was originally included in capitalized affiliate labor costs included in water plant by the Company in the years since the last rate case. We are replacing this profit because we are removing almost all of the capitalized affiliate labor costs included in water plant by the Company due to lack of support.

Plant Adjustment Nos. 8 through 14 remove almost all of the capitalized affiliate labor. With the exception of accounts 304 and 333 for 2008 the support associated with the capitalized affiliate labor was inadequate. This issue is discussed further in Section III below.

Plant Adjustment Nos. 15 through 22 reduce plant to account for various invoices that either could not be found or were associated with repair work.

Plant Adjustment 23 capitalizes two items that were inappropriately expensed.

4. Adjustments to Operating Income (Water) Schedule 4

Q. How are the Operating Income Adjustments organized?

A. The Operating Income Adjustments are organized by account.

Q. Please explain the Operating Income Adjustments.

Operating Income Adjustment No. 1 to Metered Water Revenues.

LPSCO had sought an adjustment to its test year revenue of $403,707 based on the premise that it expected to lose the City of Goodyear as a bulk water customer. The loss of the City of Goodyear as a bulk water customer is not a known and measurable event. Furthermore, it is now fully 13 months after the end of the test year and the City of Goodyear is still a bulk water customer of LPSCO. Therefore, Operating Income Adjustment No. 1 reverses the Company's adjustment that removed $403,707 from test year revenue.

Operating Income Adjustment No. 2 to Fuel for Power Production.

RUCO's Operating Income Adjustment No. 2 removes $56,381 of nonrecurring expenses that were inappropriately included in LPSCO's test year expenses.

Operating Income Adjustment No. 3 to Chemicals.

This adjustment removes $2,309 from test year expenses because they were incurred outside of the test year.

Operating Income Adjustment No. 4 Outside Services - Other.

RUCO's Operating Income Adjustment No. 4a removes $9,714 in capital items that were inappropriately booked as expenses and removes $19,912 in expenses that are nonrecurring.

Operating Income Adjustment No. 4b removes $291,708 in costs allocated to LPSCO by Algonquin Power Trust (This adjustment is discussed further in the Direct Testimony of Matthew Rowell.)

Operating Income Adjustment No. 4c removes various unnecessary and inappropriate expenses.

Adjustment 4d removes $153,174, net expenses associated with "Recon Fees to 4 Factor" due to lack of support for these expenses. (This adjustment is discussed further in the Direct Testimony of Matthew Rowell.)

Operating Income Adjustment No. 5 to Water Testing.

This adjustment removes $590, a nonrecurring expense.

Operating Income Adjustment No. 6 to Transportation Expenses.

This adjustment removes $24,302 of expenses that are unnecessary. Adjustment No. 6 also removes $422 of expenses incurred outside of the test year are removed and $37 in non-recurring expenses are removed.

Operating Income Adjustment No. 8 to Miscellaneous Expenses.

This adjustment removes $338 in nonrecurring expenses. Also, $21,689 in unnecessary/inappropriate expenses are removed. These expenses mainly pertain to credit card merchant fees, which are unnecessary and inappropriate for two reasons: (1) To our knowledge LPSCO does not accept credit card payments for its water bills. (2) Allowing credit card merchant fees to be expensed requires customers who do not pay with a credit card to subsidize customers who do. When the Company absorbs the merchant fee it is essentially giving a discount to the customer who pays with the credit card. If the fees are allowed in test year expenses, that discount is funded by all customers regardless of whether they use credit cards or not.

Operating Income Adjustment No. 9 to Depreciation Expense.

Adjustment 9a reduced depreciation expense by $43,211 because of the various RUCO plant adjustments. Adjustment 9b reduces the depreciation expense to recognize the 2% cap on the (amortized) debt issuance costs associated with LPSCO's IDA bonds (this issue is discussed in detail above in Section 2 Rate Base Adjustment 2.)

Operating Income Adjustment No. 10 to Property Tax Expense.

This adjustment reflects a reduction of $38,253 for the Company's property tax and is based on the use of the Arizona Department of Revenue formula.

Operating Income Adjustment No. 11 to Income Tax Expense.

This adjustment develops the income tax expense used in determination of the revenue requirement.

IV. Wastewater Division

1. Revenue Requirement (Wastewater) Schedule 1

Q. What is RUCO's proposed revenue requirement for LPSCO's wastewater division?

A. RUCO is recommending a revenue requirement of $8,169,592 for LPSCO's wastewater division. This represents a 28.47% increase above RUCO's adjusted test year water revenues. This compares with LPSCO's request for a revenue requirement of $11,347,975 for its water division which would be a 78.53% increase above LPSCO's adjusted test year water revenues.

2. Rate Base Adjustments (Wastewater) Schedule 2

Q. Please explain Rate Base Adjustment No. 1.

A. This adjustment decreases accumulated depreciation by $291,308 to account for the difference between RUCO's recommended accumulated depreciation balance and the Company's accumulated depreciation balance as filed. It also reduces UPIS by $6,693,440 to account for RUCO's recommended reductions in Plant in Service.

Q. Please explain Rate Base Adjustment No.2.

A. This adjustment reduces rate base by $48,150 to account for the 2% cap on the (amortized) debt issuance costs associated with LPSCO's IDA bonds. See the above discussion regarding Rate Base Adjustment 2 (Section I.2) for the water division for more information on this topic.

Q. Please Explain Rate Base Adjustment No. 3.

A. This adjustment increases the Company's CIAC balance by $597,670 to account for CIAC that was not included in the Company's rate case application. This results in a reduction in rate base of $597,670.

3. Adjustments to Test Year Plant (Wastewater) Schedule 3

Q. Please explain the test year plant adjustments.

A. Plant Adjustment No. 1 reduces the plant balance by $1,230,049 as a result of the difference in the beginning plant balance utilized by RUCO and the Company. Since the last rate case was resolved by a settlement agreement the Commission Decision associated with that case did not contain detailed information about rate base items at the end of the last test year. As a result RUCO used its plant and accumulated depreciation amounts as recommended in the last rate case.

Plant Adjustment No. 2 reduces plant by $36,500 to disallow the cost of the 2004 PACE engineering report that the Company was unable to locate and which is associated with the expansion of PVWRF. This issue is discussed further in the Direct Testimony of William Rigsby.

Plant Adjustment Nos. 3 and 4 remove a total of $544,977 from plant to account for the retirement of the Wigwam, Bullard and Litchfield Greens lift stations.

Plant Adjustment No. 5 adjusts plant downward by $38,625 to account for plant transferred to Black Mountain Sewer.

Plant Adjustment Nos. 6 and 7 capitalize test year expenses of $8,534 and $8,589, respectively that were inappropriately expensed.

Plant Adjustment Nos. 8 and 9 remove $170,375 of repair costs that were inappropriately capitalized.

Plant Adjustment Nos. 10 through 14 replace affiliate profit that the Company had removed from various plant accounts. This affiliate profit was originally included in capitalized affiliate labor costs included in plant by the Company in the years since the last rate case. We are replacing this profit because we are removing all of the capitalized affiliate labor costs included in wastewater plant by the Company due to lack of support.

Adjustment Nos. 15 through 19 remove all of the capitalized affiliate labor from wastewater plant. The support associated with the capitalized affiliate labor was inadequate. This issue is discussed further in Section III below.

Adjustment No. 20 reduces plant by $3,500,000 as a result of RUCO's recommendation that the costs of correcting design and construction flaws at the Palm Valley Water Reclamation Facility ("PVWRF") be shared 50/50 between rate payers and shareholders. The Direct Testimony of Matthew Rowell provides the rationale for this adjustment.

4. Adjustments to Operating Income (Wastewater) Schedule 4

Q. How are the Operating Income Adjustments organized?

A. The Operating Income Adjustments are organized by account.

Q. Please explain RUCO's Operating Income Adjustments.

A. **Operating Income Adjustment No. 1 to Measured Revenues**

This adjustment increases test year revenue by $2,813 to account for RUCO's recommended increases in effluent rates. This adjustment is discussed further in Section IV below.

Operating Income Adjustment No. 2 to Fuel for Power Production.

This adjustment moves $425 to purchased power.

Operating Income Adjustment No.3 to Chemicals.

This adjustment removes $13,002 of expenses that were incurred outside of the test year and moves $831 to the Purchased Power account.

Operating Income Adjustment No. 4 to Contractual Services – Other

Adjustment No. 4a removes $17,124 in expenses that should have been capitalized, $16,582 in expenses that were incurred outside of the test year, $19,784 in non-recurring expenses, $16,428 in unnecessary/inappropriate expenses, and $1,136 in expenses that are included in rate case expense.

Adjustment No. 4b removes $102,116 in net expenses associated with "Recon Fees to 4 Factor" due to lack of support for these expenses. (This adjustment is discussed further in the Direct Testimony of Matthew Rowell) Adjustment No. 4c removes $191,850 in costs allocated to LPSCO by Algonquin Power Trust (This adjustment is discussed further in the Direct Testimony of Matthew Rowell)

Adjustment No. 4d removes $8,283 in unnecessary/inappropriate expenses allocated to LPSCO by Algonquin Water Resources.

Adjustment No. 4e includes $151,179 in test year expenses that were inappropriately capitalized.

Operating Income Adjustment No. 5 to Contractual Services - Testing

Adjustment No. 5 removes $6,398 in expenses that were incurred outside of the test year.

Operating Income Adjustment No. 6 to Transportation Expense

This adjustment removes $17,702 in expenses that were unnecessary or inappropriate and $25 in non-recurring expenses.

Operating Income Adjustment No. 7 to Rental Equipment

Adjustment No. 7 removes $4,387 in non-recurring expenses.

Operating Income Adjustment No. 8 to Materials and Supplies

This adjustment removes $5,975 in unnecessary or inappropriate expenses and $7,545 in expenses incurred outside of the test year.

Operating Income Adjustment No. 9 to Miscellaneous Expenses

Adjustment No. 9 removes expenses totaling $6,409 because they were unnecessary or inappropriate. Most of these expenses are merchant fees. See Water Division Operating Income Adjustment No. 8 for a discussion of why merchant fees are inappropriate.

Operating Income Adjustment No.10 to Bad Debt Expense

This adjustment reduces bad debt expense by $40,848. The bad debt expense incurred by LPSCO's wastewater division during the test year appears to be excessive. The bad debt expense of LPSCO's wastewater division increased by 1,483% (from $2,773 to $43,889) from the year ended September 30, 2006 to the test year. This massive increase in bad debt expense is not explained by LPSCO. LPSCO's water division did not experience a similar remarkable increase in bad debt expense. Because of the extraordinary nature of the wastewater division's test year bad debt expense, an adjustment was made to bring the bad debt expense into a more typical range. The bad debt expense we used was determined by calculating bad debt expense as a percent of revenue for the water division in the test year and applying that percentage to LPSCO wastewater division's revenues.

Operating Income Adjustment No. 11 to Depreciation Expense

Adjustment No. 11a reduces depreciation expense by $225,045 to account for the various adjustments made to the plant accounts.

Adjustment No. 11b adjusts depreciation expense by $9,935 as a result of the 2% expense limit on the IDA bonds. The 2% limit on IDA bond expenses is discussed in detail above in Section 2 Rate Base Adjustment No. 2.

Operating Income Adjustment No. 12 to Property Tax

This adjustment reduces property tax expense by $62,962.

Operating Income Adjustment No. 13 to Income Tax Expense

This adjustment develops the income tax expense used in determination of the revenue requirement.

V. Capitalized Affiliate Labor

Q. Please describe the sources of information you used to evaluate LPSCO's capitalized affiliate labor.

A. I used three sources of information. First, I used the B-2 schedules provided by the Company in its application. Specifically Schedule B-2 pages 3.1 through 3.8 show plant additions and adjustments by year and by account. Relevant to this discussion are the plant adjustments for the removal of affiliate profit. Second, I used the Company's response to RUCO data request MJR 3.7. This data request sought clarification on how the affiliate profit removed from plant was calculated. In response to data request MJR 3.7 the Company provided an Excel spreadsheet that detailed how the affiliate profit numbers were developed. Third, I used information provided by the Company in response to Staff data requests JMM 1.52 and 1.77. These data requests asked for detailed backup for plant additions by year for selected accounts for the water and wastewater divisions respectively.

Q. Could the information from these sources be reconciled?

A. At the aggregate level and broken out by year the affiliate profit shown on the B schedule matched closely with that shown in the response to data request MJR 3.7 (See Table 1 below.) At the individual plant account level within each year there were significant discrepancies between the B-2 schedules and the response to data request MJR 3.7. More importantly, however, the back-up provided in response to data requests JMM 1.52 and 1.77 could not be reconciled with the information provided in response to data request MJR 3.7. Table 2 shows the variance by account for 2008 between the capitalized affiliate labor costs taken from the Company's responses to data requests JMM 1.52 and 1.77 and MJR 3.7.

Q. Are there other problems with the information provided by the Company?

A. Yes. The back-up information for affiliate transactions provided in response to data requests JMM 1.52 and 1.77 was not adequate. For each specified account the Company provided a PDF file with scanned invoices and an Excel spreadsheet summarizing the content of the PDF file. In some cases, the information on the Excel file did not match with the invoices that were actually in the PDF file. Additionally, the invoices for affiliate labor contain almost no relevant information. Each invoice contains the name and address of the billed party (LPSCO), the billing party (Algonquin Water Services, Inc.) and the "Job Address." All three of these addresses are the same. Each invoice contains a field labeled "Description" (presumably the job description) which is blank. In addition, each invoice shows the employee title (e.g., "Manager") hours worked, hourly rate, and total amount billed. (See attachment 1 for sample affiliate invoices.) Based on this backup provided by the Company, there is no way to determine whether capitalization was the appropriate treatment for these affiliate billings.

Q. What does RUCO recommend regarding the capitalized affiliate labor?

A. Given that the various sources of information provided by the Company regarding capitalized affiliate labor are inconsistent and the backup information provided by the Company for their capitalized affiliate labor is inadequate, RUCO is compelled to recommend that all the capitalized affiliate labor be disallowed with the exception of capitalized affiliate labor included in accounts 304 and 333 for 2008. The backup information for accounts 304 and 333 for 2008 provided by LPSCO included substantially more detail than that provided for all other accounts.

Table 1. Affiliate Profit removed from plant by year

Water Division

Year	B-2	MJR 3.7	Variance
2004	$6,326	$7,967	-26%
2005	$57,061	$59,456	-4%
2006	$38,310	$38,310	0%
2007	$103,128	$103,128	0%
2008	$74,573	$75,148	-1%
Total	$279,398	$284,008	-2%

Wastewater Division

Year	B-2	MJR 3.7	Variance
2004	$107,278	$107,278	0%
2005	$172,590	$172,590	0%
2006	$85,595	$87,404	-2%
2007	$173,659	$174,851	-1%
2008	$112,041	$113,207	-1%
Total	$651,163	$655,330	-1%

Table 2. 2008 Capitalized Affiliate Labor (selected accounts)

Water

	JMM 1.52	MJR 3.7	Variance
303	$72,509	$600	99%
304	$189,611	$168,159	11%
307	$10,032	$4,590	54%
311	$38		100%
320	$30,253	$13,244	-337%
331	$56		100%
333	$56,104	$1,000	98%
334	$1,069		100%
335	$281	$100	64%
339	$100		100%
340	$28,753		100%
341	$-		-
346	$6,500		100%
Total	$395,305	$189,243	52%

Wastewater (selected accounts)

	JMM 1.77	MJR 3.7	Variance
354	$66,768	$158,042	-137%
360	$94	$1,200	-1180%
361	$57,010	$57,356	-5%
366	$1,763	$1,600	9%
371	$18,784	$2,813	85%
375	$15,050	$73,638	9%
380	$32,472	$200	99%
389	$3,900	$42,600	-992%
396	$42,532	$1,850	96%
Total	$238,372	$339,299	-42%

VI. Rate Design

1. Water Division

Q. Have you prepared a schedule presenting your recommended rate design?

A. Yes, as shown on Schedule 5, I am recommending a rate design consistent with RUCO's recommended revenue allocation and requirement. The rate design provides for a 58.8% increase spread equally across all classes of service, which is a decrease of 57.2 percentage points compared to the Company's requested 116% increase.

Q. Are you recommending a tiered rate design?

A. Yes, I am recommending a three tiered rate structure for 5/8" and 3/4" meters and a two tiered rate structure for all large meter sizes.

2. Wastewater Division

Q. Have you prepared a schedule presenting your recommended rate design?

A. Yes, as shown on Schedule 5, I am recommending a rate design consistent with RUCO's recommended revenue allocation and requirement. The rate design provides for a 28.47% overall increase which is a decrease of 50.06% percentage points compared to the Company's requested 78.53%. Across most classes of service the increase is spread equally, with the exception of measured service and effluent sales.

Q. Are you recommending any changes to LPSCOs wastewater rate design?

A. Yes, I am recommending that LPSCO no longer use a "market rate" for treated effluent and I am proposing a tariff rate of $1.50 per thousand gallons for treated effluent.

Q. Why are you proposing this change to LPSCO's effluent rates?

A. Under LPSCO's current tariff its rate for effluent is a "market rate." This means that it can charge whatever rate for effluent it negotiates with each effluent customer (below a cap.) When I examined the current rates that LPSCO is charging its effluent customers, I found them to be excessively low.

Most of LPSCO's customers are currently paying $0.17 per thousand gallons. Given that treated effluent is a valuable resource and that effluent revenues help to offset the impact of rate increases on other customer classes, I believed an adjustment to LPSCO's effluent rates is appropriate. Accordingly I am recommending that LPSCO no longer use a "market rate" for treated effluent and that a tariff rate of $1.50 per thousand gallons for treated effluent be established.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of any of the witnesses for LPSCO constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your direct testimony on LPSCO?

A. Yes, it does.

Qualifications of Sonn S. Rowell

Educational Background

ARIZONA STATE BOARD OF ACCOUNTANCY
Phoenix, AZ
Certified Public Accountant Designation
Certificate Number 10372-E

STATE BOARD OF DIRECTORS FOR COMMUNITY COLLEGES OF ARIZONA Phoenix, AZ
Accountancy Teaching Certificate No. 19397

ARIZONA STATE UNIVERSITY
Tempe, AZ
Bachelor of Science Degree – Accountancy Major

Work Experience

DESERT MOUNTAIN ANALYTICAL SERVICES, PLLC (06/02 – Present)

Member/Manager

- Prepare annual reports for Arizona Corporation Commission Utilities and Corporations Divisions.
- Represent parties before the Arizona Corporation Commission for rate increases, financings, and other applications.
- Prepare quarterly and year-end payroll reporting for client businesses.
- Monthly, quarterly, and year-end processing of transactions for client businesses.
- Corporate, other business, and individual income tax preparation.
- Sales tax and Property tax reporting.

Recent Utility cases I have been involved in include:

Company Name/Class	Docket Number	Case Description
F. Wayne and Dorothy Thompson dba West Village Water Company – Class D	W-03211A-08-0622	Rate Case/Financing
Sonoita Valley Water Company	W-20435A-09-0296	Rate Case/Financing
Valle Verde Water Company – Class C	W-01431A-09-0360	Rate Case/Financing
Bob B. Watkins dba East Slope Water Company – Class C	W-01906A-09-0283	Emergency Surcharge
Antelope Run Water Company – Class D	W-02327A-09-0284	Emergency Surcharge
Indiada Water Company, Inc. – Class E	W-02031A-09-0285	Emergency Surcharge
Wickenburg Ranch Water, LLC – no customers	W-03994A-07-0657	Rate Adjustment
Southland Utilities Company, Inc. – will be filed as a Class C due to proposed rates within the next month	W-02062A-TBD	Rate Case/Financing
Aubrey Water Company – Class D	W-03476A-06-0425	Rate Case
Picacho Peak Water Company, Inc. – Class D	W-02351A-07-0686	Rate Case/Financing
Empirita Water Company, LLC – Class E	W-03948A-07-0495	Rate Case

Appendix 1

ARIZONA CORPORATION COMMISSION (07/98 – 05/02)

Rate Analyst II

- Determine necessity and amount of revenue recommended in utility rate increase proceedings
- Revise standard filing documents, train new employees, and review peer work product
- Determine impact on Company financial conditions due to various tariff filings
- Present at Open Meeting and testify at hearings about recommendations
- Lead advisory groups formed to develop recommended policies and procedures to regulate utilities

Utility Auditor III

- Determine rate increase application sufficiency or deficiency for public utilities
- Conduct on-site inspection of utility assets
- Audit utility expenses and plant additions since prior rate increase proceeding
- Coordinate with other departments regarding specialty areas of utility analysis
- Prepare staff report or testimony stating findings and recommendations based on audit results

ATTACHMENT 1

DIRECT TESTIMONY

OF

SONN S. ROWELL, CPA

Examples of Affiliate Invoices

Invoice

Remit To:
Algonquin Water Services LLC
12725 W. Indian School Road
Suite D101
Avondale, AZ 85323

Bill To:
Litchfield Park Service Compan
Attn:

12725 W Indian School Rd
Suite D101
Avondale, AZ 85323

Job Address:
12725 W Indian School Rd
Suite D101
Avondale, AZ 85323

Date	Invoice Number	Customer Order Number	Customer Number	Net Terms
4/26/2007	JC3216	LPSCO	400LPSCO	

Description

Labor	Quantity	Unit Chg	Billable Amount
Manager	58.00	125.00	7,250.00
		Labor Total:	7,250.00

Billing Amount:	US$7,250.00
Retention Withheld:	US$0.00
Retention Due:	US$0.00
Subtotal:	US$7,250.00
Misc:	US$0.00
Tax:	US$0.00
Pay This Amount:	US$7,250.00

Invoice

Remit To:
Algonquin Water Services LLC
12725 W. Indian School Road
Suite D101
Avondale, AZ 85323

Bill To:
Litchfield Park Service Compan
Attn:

12725 W Indian School Rd
Suite D101
Avondale, AZ 85323

Job Address:
12725 W Indian School Rd
Suite D101
Avondale, AZ 85323

Date	Invoice Number	Customer Order Number	Customer Number	Net Terms
5/29/2007	JC3386	LPSCO	400LPSCO	

Description

Labor	Quantity	Unit Chg	Billable Amount
Manager	25.25	125.00	3,156.25
Controller	1.75	100.00	175.00
		Labor Total:	3,331.25

Contractors	Quantity	Unit Chg	Billable Amount
	1.00	168.75	168.75
	1.00	168.75	168.75
	1.00	150.00	150.00
		Contractors Total:	487.50

Billing Amount:	US$3,818.75
Retention Withheld:	US$0.00
Retention Due:	US$0.00
Subtotal:	US$3,818.75
Misc:	US$0.00
Tax:	US$0.00
Pay This Amount:	US$3,818.75

Invoice

Remit To:
Algonquin Water Services LLC
12725 W. Indian School Road
Suite D101
Avondale, AZ 85323

Bill To:
Litchfield Park Service Compan
Attn:

12725 W Indian School Rd
Suite D101
Avondale, AZ 85323

Job Address:
12725 W Indian School Rd
Suite D101
Avondale, AZ 85323

Date	Invoice Number	Customer Order Number	Customer Number	Net Terms
6/27/2007	JC3564	LPSCO	400LPSCO	

Description

Labor	Quantity	Unit Chg	Billable Amount
Manager	36.25	125.00	4,531.25
		Labor Total:	4,531.25

Billing Amount:	US$4,531.25
Retention Withheld:	US$0.00
Retention Due:	US$0.00
Subtotal:	US$4,531.25
Misc:	US$0.00
Tax:	US$0.00
Pay This Amount:	US$4,531.25

Exhibit 1

DIRECT TESTIMONY

OF

SONN S. ROWELL, CPA

Water Division Schedules

Litchfield Park Service Company - Water Division
Docket No. SW-01428-09-0103 and W-01427A-09-0104
Test Year Ended September 30, 2008

Revenue Requirement

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	$ 37,930,921	$ 37,222,878
2			
3	Adjusted Operating Income/(Loss)	$ (282,894)	$ 389,947
4			
5	Current Rate of Return (L3 / L1)	-0.75%	1.05%
6			
7	Required Operating Income (L9 X L1)	$ 4,327,918	$ 2,873,606
8			
9	Required Rate of Return on Fair Value Rate Base	11.410%	7.720%
10			
11	Operating Income Deficiency (L7 - L3)	$ 4,610,812	$ 2,483,659
12			
13	Gross Revenue Conversion Factor (Schedule 1, Page 2)	1.6286	1.6286
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13)	$ 7,509,329	$ 4,044,974
16			
17	Adjusted Test Year Revenue	$ 6,475,002	$ 6,878,710
18			
19	Proposed Annual Revenue (L15 + L17)	$ 13,984,331	$ 10,923,684
20			
21	Required Percentage Increase in Revenue (L15 / L17)	115.97%	58.80%
22			
23	Rate of Return on Common Equity	12.500%	8.010%

References:
Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedules 2 and 4

Litchfield Park Service Company - Water Division
Docket No. SW-01428-09-0103 and W-01427A-09-0104
Test Year Ended September 30, 2008

Schedule 1
Page 2 of 2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (Line 12)	(0.3860)			
3	Subtotal (Line 1 + Line 2)	0.6140			
4	**Revenue Conversion Factor** (L1 / L3)	**1.6286**			
5					
6	CALCULATION OF EFFECTIVE TAX RATE:				
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Col. (D), L43)	34.0000%			
11	Effective Federal Income Tax Rate (L9 X L10)	31.6309%			
12	Combined Federal And State Income Tax Rate (L8 + L11)	38.5989%			
13					
14	Required Operating Income (Sch.-1, Pg 1, Col. (B), L7)	$ 2,873,606			
15	Adjusted T.Y. Oper'g Inc. (Loss) (Sch.-1, Pg 1, C (B), L3)	389,947			
16	Required Increase In Operating Income (L14 - L15)		$2,483,659		
17					
18	Income Taxes On Recommended Revenue (Col. (D), L31)	$ 1,539,694			
19	Income Taxes On Test Year Revenue (Col. (D), L40)	(21,621)			
20	Required Increase In Revenue To Provide For Income Taxes (L18 - L19)		$1,561,315		
21					
22	Total Required Increase In Revenue (L16 + L20)		$4,044,974		
23				RUCO	
24	CALCULATION OF INCOME TAX:			RECOMMENDED	
25	Revenue (Sch -1, Pg 1, Col. (B), L19)			$ 10,923,684	
26	Operating Expense Excluding Income Tax (Sch4, Col. (E), L37 - L32)			6,510,384	
27	Synchronized Interest (Col. (C), L48)			424,341	
28	Arizona Taxable Income (L25 - L26 - L27)			$ 3,988,959	
29	Arizona State Income Tax Rate			6.9680%	
30	Arizona Income Tax (L28 X L29)				$ 277,951
31	Fed. Taxable Income (L28 - L30)			$ 3,711,009	
32	Fed. Tax on 1st Inc. Bracket ($1 - $50,000) @ 15%			$ 7,500	
33	Fed. Tax on 2nd Inc. Bracket ($50,001 - $75,000) @ 25%			6,250	
34	Fed. Tax on 3rd Inc. Bracket ($75,001 - $100,000) @ 34%			8,500	
35	Fed. Tax on 4th Inc. Bracket ($100,001 - $335,000) @ 39%			91,650	
36	Fed. Tax on 5th Inc. Bracket ($335,001 - $10M) @ 34%			1,147,843	
37	Total Federal Income Tax (L32 + L33 + L34 + L35 + L36)				1,261,743
38	Combined Federal and State Income Tax (L30 + L37)				$ 1,539,694
39					
40	Test Year Combined Income Tax, RUCO as Adjusted (Sch 4, Col. (C), L31)				$ (21,621)
41	**RUCO Adjustment To Proposed Income Tax (L38 - L40) (See Sch 1, Col. (D), L32)**				**$ 1,561,315**
42					
43	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
44					
45	CALCULATION OF INTEREST SYNCHRONIZATION:				
46	Rate Base			$ 37,222,878	
47	Weighted Avg. Cost of Debt			1.14%	
48	Synchronized Interest (L35 X L36)			$ 424,341	

Litchfield Park Service Company - Water Division
Docket No. SW-01428-09-0103 and W-01427A-09-0104
Test Year Ended September 30, 2008

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJM'T No. 1	(C) RUCO ADJM'T No. 2	(D) RUCO ADJM'T No. 3	(E) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant in Service	$ 73,731,715	$ (841,129)			$ 72,890,586
2						-
3	Accumulated Depreciation	(9,097,645)	189,493			(8,908,152)
4						-
5	Net Utility Plant in Service (Sum L1 & L3)	$ 64,634,070	$ (651,636)	$ -	$ -	$ 63,982,434
6						
7	**Less:**					
8	Advances in Aid Of Construction	$ (24,583,673)				$ (24,583,673)
9						-
10	Contribution in Aid of Const.	$ (3,104,068)				(3,104,068)
11	Accumulated Amortization of CIAC	860,706				860,706
12	NET CIAC (L10 + L11)	$ (2,243,362)	$ -	$ -	$ -	$ (2,243,362)
13						
14	Customer Meter Deposits	$ (68,685)				$ (68,685)
15	Deferred Income Tax	(24,518)				(24,518)
16						
17	**Plus:**					
18	Unamortized Debt Issuance Costs	$ 134,528		$ (48,150)		86,378
19	Deferred Regulatory Assets	82,561			$ (8,256)	74,305
20						-
21						-
22	TOTAL RATE BASE (Sum Lines's 5,8,12-19)	$ 37,930,921	$ (651,636)	$ (48,150)	$ (8,256)	$ 37,222,878

References:
Column (A): Company Schedule B-1
Column (B): RUCO Schedule 2, Page 2
Column (C): RUCO Schedule 2, Page 3
Column (D): RUCO Schedule 2, Page 4
Column (E): Sums of Column (A) through Column (D)

Litchfield Park Service Company - Water Division
Docket No. SW-01428A09-0103
Test Year Ended September 30, 2008

EXPLANATION OF RATE BASE ADJUSTMENT NO. 1 TO UTILITY PLANT IN SERVICE

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	RUCO Proposed Utility Plant In Service At End of Test Year	$72,890,586	RUCO Schedule 3, Page 1
2			
3	Company Proposed Utility Plant In Service At End of Test Year	73,731,715	Company Schedule B-1
4			
5	**RUCO Proposed Adjustment To Utility Plant in Service**	**$ (841,129)**	
6			
7			
8	Accumulated Depreciation At End of Prior Test Year	$ 2,016,268	Staff Amount Per Decision 65436
9	2001 Depreciation Expense	301,412	
10	2002 Depreciation Expense	428,370	
11	2003 Depreciation Expense	675,633	
12	2004 Depreciation Expense	832,647	
13	2005 Depreciation Expense	1,036,740	
14	2006 Depreciation Expense	1,151,512	
15	2007 Depreciation Expense	1,227,908	
16	2008 Depreciation Expense (9 months)	1,323,990	
17	Subtotal	$ 8,994,481	Sum of Lines 16 through 19
18			
19	Less 2003 Retirements	$ (84,979)	
20	Less 2006 Retirements	(1,350)	
21			
22	RUCO Proposed Accumulated Depreciation At End of Test Year	$ 8,908,152	Sum of Lines 17, 19, and 20
23			
24	Company Proposed Accumulated Depreciation At End of Test Year	$ 9,097,645	Company Schedule B-1
25			
26	**RUCO Proposed Adjustment To Accumulated Depreciation**	**$ (189,493)**	Line 22 - Line 24

Litchfield Park Service Company - Water Division
Docket No. SW-01428-09-0103 and W-01427A-09-0104
Test Year Ended September 30, 2008

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 2
TO UNAMORTIZED DEBT ISSUANCE COSTS**

Line No.	Description	(A) 1999 Series Bonds	(B) 2001 Series Bonds	(C) Combined Total (A) + (B)
1	Aggregate Principal Balance of IDA Bonds	$ 5,335,000	$ 7,500,000	$ 12,835,000
2	Allowable Debt Issuance Cost as per 1999 & 2001 IDA Bond Contracts	2.00%	2.00%	
3				
4	Total Allowable Debt Issuance Cost (L1 X L2)	$ 106,700	$ 150,000	$ 256,700
5	Term of Bond Issue, in Years	24	30	
6				
7	Annual Debt Issuance Amortization Expense - Straight Line (L4 / L5)	$ 4,446	$ 5,000	$ 9,446
8	Number of Months in Year	12	12	
9				
10	Allowable Monthly Amortization Expense (L7 / L8)	$ 370	$ 417	$ 787
11	Months Remaining before the Bonds Reach Maturity*	168	264	
12				
13	Unamortized Debt Issuance Costs -- RUCO as Adjusted (L10 X L11)	$ 62,242	$ 110,000	$ 172,242
14				
15				
16	Unamortized Debt Issuance Costs -- Company as Filed	$ 141,268	$ 127,274	$ 268,542
17				
18	Unamortized Debt Issuance costs -- RUCO as Adjusted	62,242	110,000	172,242
19				
20	**Decrease to Unamortized Debt Issuance Costs**	**$ (79,027)**	**$ (17,274)**	**$ (96,301)**
21				
22	Walter Division Cost Allocation Percent			50.00%
23				
24	**RUCO Unamortized Debt Issuance costs - Water Division**			**$ (48,150)**

* Information on the months remaining before the bonds reach maturity was provided in the Company's response to Staff Data Request JMM 1.32, with the 1999 Series IDA Bonds maturing October 1, 2023, and the 2001 Series IDA Bonds Maturing October 1, 2031.

Litchfield Park Service Company - Water Division
Docket No. SW-01428A09-0103
Test Year Ended September 30, 2008

EXPLANATION OF RATE BASE ADJUSTMENT NO. 3
TO DEFERRED REGULATORY ASSETS

LINE NO.	DESCRIPTION		AMOUNT	REFERENCE
1	Deferred Regulatory Assets Per Company (TCE Plume)	$	82,561	Company Schedule B-1
2				
3	Amortization Period In Years		10	Company Schedule C-2, Page 13
4				
5	Annual Amortization Expense Per Company	$	8,256	Line 1 / Line 3
6				
7				
8	Portion of Cost Allocated to Rate Base Per RUCO	$	74,305	Line 1 - Line 5
9				
10	Cost Allocated to Rate Base Per Company		82,561	Company Schedule B-1
11				
12	**RUCO Proposed Adjustment To Deferred Regulatory Assets**	**$**	**(8,256)**	Line 8 - Line 10
13				
14				
15	Portion of Cost Allocated to Expense Per RUCO	$	8,256	Line 1 - Line 8
16				
17	Cost Allocated to Expense Per Company		8,256	Company Schedule C-2, Page 13
18				
19	**RUCO Proposed Adjustment To Miscellaneous Expense**	**$**	**-**	Line 15 - Line 17

Litchfield Park Service Company - Water Division
Docket No. SW-01428A09-0103
Test Year Ended September 30, 2008

UTILITY PLANT IN SERVICE SCHEDULE
TEST YEAR ENDED SEPTEMBER 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) COMPANY ADJ TEST YR	(B) RUCO ADJUSTMENTS	(C) RUCO PLANT VALUE
1	301	Organization	$ -	$ 21,100	$ 21,100
2	302	Franchises	-	-	-
3	303	Land and Land Rights	1,284,595	(96,170)	1,188,425
4	304	Structures and Improvements	24,698,293	(446,942)	24,251,351
5	307	Wells and Springs	2,382,102	(31,705)	2,350,397
6	310	Power Generation Equipment	202,269	-	202,269
7	311	Electric Pumping Equipment	948,213	(157,561)	790,652
8	320	Water Treatment Equipment	1,337,824	(20,253)	1,317,571
9	320.1	Water Treatment Plants	1,866,965	-	1,866,965
10	320.2	Chemical Solution Feeders	-	-	-
11	330	Distribution Reservoirs & Standpipes	430,644	(3,839)	426,805
12	330.1	Storage Tanks	-	-	-
13	330.2	Pressure Tanks	-	-	-
14	331	Transmission and Distribution Mains	28,929,171	(18,048)	28,911,123
15	333	Services	4,249,744	(57,961)	4,191,783
16	334	Meters	4,138,752	(1,739)	4,137,013
17	335	Hydrants	2,055,781	(1,258)	2,054,523
18	336	Backflow Prevention Devices	38,387	-	38,387
19	339	Other Plant and Miscellaneous Equipment	265,281	(5,175)	260,106
20	340	Office Furniture and Equipment	551,757	-	551,757
21	340.1	Computers and Software	-	-	-
22	341	Transportation Equipment	177,165	(17,669)	159,496
23	342	Stores Equipment	31,711	-	31,711
24	343	Tools, Shop, and Garage Equipment	23,350	-	23,350
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	119,710	(3,908)	115,802
28	347	Miscellaneous Equipment	-	-	-
29	348	Other Tangible Plant	-	-	-
30					
31		**TOTAL WATER UTILITY PLANT IN SERVICE**	**$ 73,731,714**	**$ (841,128)**	**$ 72,890,586**

Litchfield Park Service Company - Water Division
Docket No. SW-01428A09-0103
Test Year Ended September 30, 2008

TEST YEAR PLANT SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	COMPANY AS FILED	RUCO ADJ 1	RUCO ADJ 2	RUCO ADJ 3	RUCO ADJ 4	RUCO ADJ 5	RUCO ADJ 6	RUCO ADJ 7	RUCO ADJ 8	TOTAL PG 1 ADJ
1	301	Organization	$ -	$ 21,100								$ 21,100
2	302	Franchises	-									-
3	303	Land and Land Rights	1,284,595								$ (96,170)	(96,170)
4	304	Structures and Improvements	24,698,293		$ (47,721)	$ 602	$ 28,165	$ 22,752	$ 99,915			103,713
5	307	Wells and Springs	2,382,102				8,385		166	1,925		10,476
6	310	Power Generation Equipment	202,269									-
7	311	Electric Pumping Equipment	948,213		(31,158)	199	8,399					(22,560)
8	320	Water Treatment Equipment	1,337,824				3,517	9,690	2,049	6,948		22,204
9	320.1	Water Treatment Plants	1,866,965									-
10	320.2	Chemical Solution Feeders	-									-
11	330	Distribution Reservoirs & Standpipes	430,644					3,381	969	111		4,461
12	330.1	Storage Tanks	-									-
13	330.2	Pressure Tanks	-									-
14	331	Transmission and Distribution Mains	28,929,171									-
15	333	Services	4,249,744			4,734	6,563	400				11,697
16	334	Meters	4,138,752			280	477	204				961
17	335	Hydrants	2,055,781			511	163			18		692
18	336	Backflow Prevention Devices	38,387									-
19	339	Other Plant and Miscellaneous Equipment	265,281									-
20	340	Office Furniture and Equipment	551,757									-
21	340.1	Computers and Software	-									-
22	341	Transportation Equipment	177,165									-
23	342	Stores Equipment	31,711									-
24	343	Tools, Shop, and Garage Equipment	23,350									-
25	344	Laboratory Equipment	-									-
26	345	Power Operated Equipment	-									-
27	346	Communications Equipment	119,710				1,394	1,883	28	787		4,092
28	347	Miscellaneous Equipment	-									-
29	348	Other Tangible Plant	-									-
30												
31												
32	TOTAL WATER PLANT		$ 73,731,714	$ 21,100	$ (78,879)	$ 6,326	$ 57,063	$ 38,310	$ 103,127	$ 9,789	$ (96,170)	$ 60,666

ADJ 1 Replace Organization Costs as approved by last Decision
ADJ 2 Retire Litchfield Greens Booster Pump Station in 2003
ADJ 3 Reverse Company Adjustment for 2004 Affiliate Profit
ADJ 4 Reverse Company Adjustment for 2005 Affiliate Profit
ADJ 5 Reverse Company Adjustment for 2006 Affiliate Profit
ADJ 6 Reverse Company Adjustment for 2007 Affiliate Profit
ADJ 7 Reverse Company Adjustment for 2008 Affiliate Profit
ADJ 8 Remove unsupported affiliate labor and accruals, and rent from 2008 plant additions

Capitalized Affiliate Labor - Algonquin	$ (27,040)
Capitalized Affiliate Labor - New Spring	(40,013)
Rent to Maryland 40, LLC	(9,000)
Unsupported Accurals	(20,117)
Total Adjustment 8	$ (96,170)

TEST YEAR PLANT SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	RUCO ADJ 9	RUCO ADJ 10	RUCO ADJ 11	RUCO ADJ 12	RUCO ADJ 13	RUCO ADJ 14	RUCO ADJ 15	RUCO ADJ 16	RUCO ADJ 17	TOTAL PG 2 ADJ
1	301	Organization										$ -
2	302	Franchises										-
3	303	Land and Land Rights										-
4	304	Structures and Improvements		$ (1,125)		$ (33,156)		$ (267,183)		$ (7,072)		(308,536)
5	307	Wells and Springs	(6,200)			(19,238)	(1,800)				(14,943)	(42,181)
6	310	Power Generation Equipment										-
7	311	Electric Pumping Equipment		(375)	(18,050)							(18,425)
8	320	Water Treatment Equipment			(7,188)		(3,700)	(31,569)				(42,457)
9	320.1	Water Treatment Plants										-
10	320.2	Chemical Solution Feeders										-
11	330	Distribution Reservoirs & Standpipes						(8,300)				(8,300)
12	330.1	Storage Tanks										-
13	330.2	Pressure Tanks										-
14	331	Transmission and Distribution Mains										-
15	333	Services		(10,915)	(14,360)	(875)			(27,700)	(4,170)		(58,020)
16	334	Meters		(800)	(1,325)	(575)						(2,700)
17	335	Hydrants			(1,450)			(100)				(1,550)
18	336	Backflow Prevention Devices										-
19	339	Other Plant and Miscellaneous Equipment			(5,175)							(5,175)
20	340	Office Furniture and Equipment										-
21	340.1	Computers and Software										-
22	341	Transportation Equipment									(17,669)	(17,669)
23	342	Stores Equipment										-
24	343	Tools, Shop, and Garage Equipment										-
25	344	Laboratory Equipment										-
26	345	Power Operated Equipment										-
27	346	Communications Equipment						(8,000)				(8,000)
28	347	Miscellaneous Equipment										-
29	348	Other Tangible Plant										-
30												
31												
32		TOTAL WATER PLANT	$ (6,200)	$ (13,215)	$ (47,548)	$ (53,844)	$ (5,500)	$ (315,152)	$ (27,700)	$ (11,242)	$ (32,612)	$ (513,013)

ADJ 9
ADJ 10 Remove 2004 unsupported affiliate labor costs by estimated year related asset placed in service.
ADJ 11 Remove 2005 unsupported affiliate labor costs by estimated year related asset placed in service.
ADJ 12 Remove 2006 unsupported affiliate labor costs by estimated year related asset placed in service.
ADJ 13 Remove 2007 unsupported affiliate labor costs by estimated year related asset placed in service.
ADJ 14 Remove 2008 unsupported affiliate labor costs by estimated year related asset placed in service.
ADJ 15 Remove 3 repair invoices ($3,000 times 2, and 1 @ $2,700) and 1 unsupported amount ($19,000) from 2001 plant additions from Yahweh Contracting.
ADJ 16 Remove 2 repair invoices from Yahweh ($2,085 times 2) and 1 rent invoice from Suncor ($7,072) from 2002 plant additions.
ADJ 17 Remove 3 unsupported amounts from Huges Supply ($5,081, $4,931, and $4,931), one invoice from W. Fisher for $2,750, and 2002 plant additions one invoice from Courtesy Chevrolet ($14,919) from 2002 plant additions.

Litchfield Park Service Company - Water Division
Docket No. SW-01428A09-0103
Test Year Ended September 30, 2008

TEST YEAR PLANT SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	RUCO ADJ 18	RUÇO ADJ 19	RUCO ADJ 20	RUCO ADJ 21	RUCO ADJ 22	RUÇO ADJ 23	TOTAL PG 3 ADJ	TOTAL ALL ADJS
1	301	Organization							$ -	$ 21,100
2	302	Franchises							-	-
3	303	Land and Land Rights							-	(96,170)
4	304	Structures and Improvements	(242,119)						(242,119)	(446,942)
5	307	Wells and Springs							-	(31,705)
6	310	Power Generation Equipment							-	-
7	311	Electric Pumping Equipment		(53,409)		(64,281)		1,114	(116,576)	(157,561)
8	320	Water Treatment Equipment							-	(20,253)
9	320.1	Water Treatment Plants							-	-
10	320.2	Chemical Solution Feeders							-	-
11	330	Distribution Reservoirs & Standpipes							-	(3,839)
12	330.1	Storage Tanks							-	-
13	330.2	Pressure Tanks							-	-
14	331	Transmission and Distribution Mains		(26,648)				8,600	(18,048)	(18,048)
15	333	Services	(8,411)		(3,227)				(11,638)	(57,961)
16	334	Meters							-	(1,739)
17	335	Hydrants					(400)		(400)	(1,258)
18	336	Backflow Prevention Devices							-	-
19	339	Other Plant and Miscellaneous Equipment							-	(5,175)
20	340	Office Furniture and Equipment							-	-
21	340.1	Computers and Software							-	-
22	341	Transportation Equipment							-	(17,669)
23	342	Stores Equipment							-	-
24	343	Tools, Shop, and Garage Equipment							-	-
25	344	Laboratory Equipment							-	-
26	345	Power Operated Equipment							-	-
27	346	Communications Equipment							-	(3,908)
28	347	Miscellaneous Equipment							-	-
29	348	Other Tangible Plant							-	-
30										
31										
32		TOTAL WATER PLANT	$ (250,530)	$ (80,057)	$ (3,227)	$ (64,281)	$ (400)	$ 9,714	$ (388,781)	$ (841,128)

ADJ 18 Remove 1 repair invoice from Pyramid West Pipeline ($1,391), 1 unsupported amount from Pyramid ($7,020), and a journal entry amount not supported by backup ($242,119) from 2004 plant additions.
ADJ 19 Remove 1 repair invoice from CH2OICE Pump ($53,409), and several repair invoices from Ram Pipelines that total $26,648 from 2005 plant additions.
ADJ 20 Remove 1 repair invoice from Yahweh ($2,450), and 1 repair invoice from Ram Pipelines ($777) from 2006 plant additions.
ADJ 21 Remove repair invoice from CH2OICE Pump for $64,281 from 2008 plant additions.
ADJ 22 Remove repair invoice from MS Hernandez Construction for $400 from 2003.
ADJ 23 Capitalize amount removed from expenses from Hydro Controls (2008) for well site clocks, and from Harasimhan Consulting (2007) for distribution system evaluation.

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OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	REF	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROPOSED INCREASE	(E) RUCO AS RECOMM'D
1	Revenues						
2	Metered Water Revenue	$6,347,481	$ 403,707	1	$ 6,751,188	$ 4,044,974	$ 10,796,162
3	Unmetered Water Revenue	-			-		-
4	Other Water Revenue	127,522			127,522		127,522
5					-		-
6	TOTAL OPERATING REVENUE	$6,475,003	$ 403,707		$ 6,878,710	$ 4,044,974	$ 10,923,684
7							
8	Operating Expenses						
9	Salaries & Wages	$ -			$ -		$ -
10	Purchased Water	5,011			5,011		5,011
11	Purchased Power	1,013,811			1,013,811		1,013,811
12	Fuel for Power Production	58,147	(56,381)	2	1,766		1,766
13	Chemicals	503,278	(2,309)	3	500,969		500,969
14	Repairs and Maintenance	44,001			44,001		44,001
15	Office Supplies and Expense	-			-		-
16	Outside Services	12,469			12,469		12,469
17	Outside Services - Other	2,382,976	(482,958)	4a-d	1,900,018		1,900,018
18	Outside Services - Legal	14,317			14,317		14,317
19	Water Testing	28,365	(590)	5	27,775		27,775
20	Rents	10,647			10,647		10,647
21	Transportation Expenses	151,879	(24,761)	6	127,118		127,118
22	Insurance - General Liability	95,469			95,469		95,469
23	Insurance - Health and Life	3,319			3,319		3,319
24	Regulatory Comm, Expense	63,662			63,662		63,662
25	Regulatory Comm, Exp. - Rate Case	70,000	(20,000)	7	50,000		50,000
26	Miscellaneous Expense	81,664	(22,027)	8	59,637		59,637
27	Bad Debt Expense	3,264			3,264		3,264
28	Depreciation & Amortization	2,291,982	(49,953)	9a-b	2,242,029		2,242,029
29	Taxes Other Than Income	-			-		-
30	Property Taxes	373,354	(38,253)	10	335,101		335,101
31	Income Tax	(449,717)	428,096	11	(21,621)	1,561,315	1,539,694
32					-		-
33							
34	TOTAL OPERATING EXPENSES	$6,757,898	$ (269,135)		$ 6,488,763	$ 1,561,315	$ 8,050,078
35							
36	**OPERATING INCOME (LOSS)**	**$ (282,895)**	**$ 672,842**		**$ 389,947**	**$ 2,483,659**	**$ 2,873,606**

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
TO METERED WATER REVENUES**

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	Company Proforma Decrease to Test Year Revenue		$ (403,707)
2			
3	RUCO Proposed Decrease to Test Year Revenue		-
4			
5	**RUCO Adjustment to Increase Test Year Revenue**		**$ 403,707**
6			
7	Portion of Company Adjustment 4 related to contract with the City of Goodyear,		
8	AZ. Company decreased test year revenue to adjust for the potential loss of		
9	this customer.		

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2 TO FUEL FOR POWER PRODUCTION

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	Kohler Rental Power	Invoice 5060152	$ (36,064)
2	Kohler Rental Power	Invoice 5061075	(23,170)
3	Kohler Rental Power	Invoice 5057208	(25,297)
4	Kohler Rental Power	Invoice 5063232	(7,850)
5	Diesel fuel accrual adjustments	JE 46643	36,000
6			
7	**RUCO Adjustment to Remove Non-Recurring Expenses**		**$ (56,381)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3 TO CHEMICALS

LINE NO.	DESCRIPTION	REFERENCE		AMOUNT
1	HILL BROTHERS CHEMICAL CO.	Invoice 04293499	$	(305)
2	HILL BROTHERS CHEMICAL CO.	Invoice 04293606		(213)
3	HILL BROTHERS CHEMICAL CO.	Invoice 04293605		(228)
4	HOME DEPOT	JE 46704		(814)
5	HOME DEPOT	JE 47955		(749)
6				
7	**RUCO Adjustment To Remove Expenses Outside of Test Year**		**$**	**(2,309)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4a
TO OUTSIDE SERVICES - OTHER

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Hydro Controls and Pump Systems (Clocks for well sites)	$ (1,114)	Invoice No. 227 (June 9, 2008)
2	Narasimhan Consulting Services (Distribution System Evaluation)	(8,600)	Invoice No. 0252-1 (Oct. 27, 2007)
3			
4	**RUCO Adjustment To Remove Expenses To Be Capitalized**	**$ (9,714)**	
5			
6			
7	Southwest Ground-water Consultants (Well Spacing Evaluation)	$ (1,380)	Invoice No. B.1426-2-1 (Feb. 13, 2008)
8	Southwest Ground-water Consultants (Well Rehabilitation-Dry Ice)	(4,072)	Invoice No. B.1591-2 (Mar. 20, 2008)
9	Southwest Ground-water Consultants (Recharge Characterization)	(2,613)	Invoice No. B.1426-11 (June 25, 2008)
10	Southwest Ground-water Consultants (Report for Production Well)	(1,225)	Invoice No. B.1661-1V (July 11, 2008)
11	Southwest Ground-water Consultants (Report for Production Well)	(2,800)	Invoice No. B.1661-1 (July 11, 2008)
12	Southwest Ground-water Consultants (Well Impact Analysis)	(4,823)	Invoice No. B.1688-1 (Sept. 8, 2008)
13	Burke Hansen, LLC (Real estate appraisal)	(3,000)	Invoice No. 8107N (June 5, 2008)
14			
15	**RUCO Adjustment to Remove Non-Recurring Expenses**	**$ (19,912)**	
16			
17	**TOTAL RUCO ADJUSTMENT TO OUTSIDE SERVICES - OTHER**	**$ (29,625)**	

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4b
TO OUTSIDE SERVICES - OTHER

LINE NO.	GENERAL LEDGER ACCOUNT	VENDOR	DESCRIPTION	AMOUNT
1	Central Office - Accounting/Administration	Algonquin Power Trust	GENERAL ACCTIN FEE - LPSCO	$ (2,689)
2	Central Office - Human Resources	Algonquin Power Trust	GEN HR FEE- LPSCO	(12,790)
3	Central Office - Information Technology	Algonquin Power Trust	GEN IT FEE- LPSCO	(1,127)
4	Central Office - Operations	Algonquin Power Trust	GENERAL OPS	(1,146)
5	Central Office Fixed Overhead Costs	Algonquin Power Trust	MGMT FEE- LPSCO	(273,956)
6				
7	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**			**$ (291,708)**

Note: Descriptions above are per company journal entries in the general ledger.

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4c
TO OUTSIDE SERVICES - OTHER

LINE NO.	DESCRIPTION	ACCOUNT	REFERENCE	AMOUNT
1	Algonquin Water Resources	Meals and Entertainment	MISC. SUPPLIES	$ (488)
2	Algonquin Water Resources	Meals and Entertainment	Expense Reports/Travel	(19,123)
5	Algonquin Water Resources	Meals and Entertainment	DJ SERVICE - XMAS PARTY	(495)
6	Algonquin Water Resources	Meals and Entertainment	For Holiday Party Dec. 2008	(4,959)
7	Algonquin Water Resources	Meals and Entertainment	BALANCE DUE FOR 2008 XMAS PART	(953)
8	Algonquin Water Resources	Meals and Entertainment	2007 CAPITAL PRJECTS PLANNING	(211)
9	Algonquin Water Resources	Meals and Entertainment	Exp cost for the DBack game	(6,400)
10	Algonquin Water Resources	Meals and Entertainment	Catered lunch	(412)
11	Algonquin Water Resources	Licenses, Permits & Fees	FALSE ALARM FINE	(150)
12	Algonquin Water Resources	Licenses, Permits & Fees	FALSE ALARM FINE	(200)
13	Algonquin Water Resources	Licenses, Permits & Fees	Credit for Alarm Violation	250
14	Algonquin Water Resources	Dues & Memberships	HR Membership	(274)
15	Algonquin Water Resources	Dues & Memberships	TWC-FY08 DUES	(1,504)
16	Algonquin Water Resources	Dues & Memberships	TWC FY08 MBRSHIP DUES	(709)
17	Algonquin Water Resources	Dues & Memberships	r/c membership fee for 2008	1,378
18	Algonquin Water Resources	Dues & Memberships	r/c membership fee for 2008	650
19	Algonquin Water Resources	Dues & Memberships	MEMBERSHIP RENEWAL	(160)
20	Algonquin Water Resources	Dues & Memberships	MANAGEMENT PUBLICATIONS	(99)
21	Algonquin Water Resources	Dues & Memberships	Exp Tx Rual Water Assoc. Membe	(383)
22	Algonquin Water Resources	Dues & Memberships	Exp Tx Rual Wtr Assoc Membersh	(383)
23	Algonquin Water Resources	Dues & Memberships	exp Tx Rual Water Assoc Member	(383)
24				
25			Total Expenses	$ (35,008)
26				
27			Water Division Allocation Factor	24.14%
28				
29	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**			**$ (8,451)**

Note: Account names and references above are per Algonquin journal entries in its general ledger.

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4d TO OUTSIDE SERVICES - OTHER

LINE NO.	GENERAL LEDGER ACCOUNT	VENDOR	DESCRIPTION	AMOUNT
1	Admin Allocation - AWS	Algonquin Water Services	Recon fees to 4 factor	$ (728,574)
2	Contractual Services-AWS	Algonquin Water Services	Recon fees to 4 factor	265,541
3	Contractual Services-AWS	Algonquin Water Services	Recon fees to 4 factor	309,859
4				
5				
6	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**			**$ (153,174)**

Note: Descriptions above are per company journal entries in the general ledger.

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
TO WATER TESTING

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	QUALITY CRANE SERVICES, INC	Invoice 30400	$ (590)
2			
3	**RUCO Adjustment to Remove Non-Recurring Expense**		**$ (590)**

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6
TO TRANSPORTATION EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	Algonquin Water Services	Invoice SALES000000001019	$ (19,364)
2	Algonquin Water Services	Invoice SALES000000001036	(4,938)
3			
4	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**		**$ (24,302)**
5			
6	B&A Auto Repair	Invoice 3266	$ (284)
7	DESERT GOLF CARS	Invoice 45331	(138)
8			
9	**RUCO Adjustment To Remove Expenses Outside of Test Year**		**$ (422)**
10			
11	Commonwealth Tow & Transport	Invoice 4389	(37)
12			
13	**RUCO Adjustment to Remove Non-Recurring Expense**		**$ (37)**
14			
15	**TOTAL RUCO ADJUSTMENT TO TRANSPORTATION EXPENSES**		**$ (24,761)**

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8
TO MISCELLANEOUS EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	10/3 Merchant Fees	JE 46993	$ (2,195)
2	11/5 merchant fee	JE47338	(1,538)
3	1/3 Merchant Fees	JE48951	(862)
4	Merchant Fees	JE 49341	(14)
5	2/5 Merchant Fees	JE 49730	(982)
6	BANK & MERCHANT FEES	JE 50008	(1,109)
7	Merchant Fees	JE 50417	(1,072)
8	DISCOVER CARD FEES	JE 51126	(25)
9	MERCHANT FEES	JE 51127	(2,259)
10	Record Credit Card Fees	JE 51940	(2,201)
11	Record Monthly CC Fees	JE 53038	(2,501)
12	record monthly AMEX cr card fe	JE 54076	(6)
13	Record monthly credit card fee	JE 54077	(2,838)
14	record monthly credit card fee	JE 54663	(3,260)
15	Algonquin Power System	LABOR/TRAVEL/INSURANCE Invoice JC34077	(21)
16	Algonquin Water Services	PARTS/MEALS/GAS/MILGE/TELEPHON Invoice JC4258	(19)
17	Algonquin Water Services	MATERIAL/TRAVEL/TELEPHONE Invoice JC4457	(423)
18	Algonquin Water Services	MTRL/CONTRCTS/EQPMT/TRVL/TELE Invoice JC5243	(53)
19	Algonquin Water Services	PARTS/TRAVEL/TELEPHONE Invoice JC5435	(92)
20	Algonquin Water Services	PARTS/TRAVEL/CELLULAR Invoice JC6080	(15)
21	Algonquin Water Services	8600-0100-repairs Invoice JC6285	(204)
22			
23	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**		**$ (21,689)**
24			
25			
26	Write off Unrec Variance		$ (338)
27			
28	**RUCO Adjustment to Remove Non-Recurring Expense**		**$ (338)**
29			
30		**TOTAL RUCO ADJUSTMENT TO MISCELLANEOUS EXPENSES**	**$ (22,027)**

Note: Descriptions and references above are per company journal entries in the general ledger.

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9a TO DEPRECIATION EXPENSE

LINE NO.	ACCT NO.	PLANT ACCOUNT	RUCO ORIGINAL COST	PROPOSED DEPR RATE	PROPOSED DEPR EXPENSE
1	301	Organization	$ 21,100	0.00%	$ -
2	302	Franchises	-	0.00%	-
4	303	Land and Land Rights	1,188,426	0.00%	-
5	304	Structures and Improvements	24,251,352	3.33%	807,570
6	307	Wells and Springs	2,350,398	3.33%	78,268
7	310	Power Generation Equipment	202,270	5.00%	10,114
8	311	Electric Pumping Equipment	790,650	12.50%	98,831
9	320	Water Treatment Equipment	1,317,573	3.33%	43,875
10	320.1	Water Treatment Plants	1,866,965	3.33%	62,170
11	320.2	Chemical Solution Feeders	-	2.22%	-
12	330	Distribution Reservoirs & Standpipes	426,805	2.20%	9,390
13	330.1	Storage Tanks	-	2.20%	-
14	330.2	Pressure Tanks	-	5.00%	-
15	331	Transmission and Distribution Mains	28,911,123	2.00%	578,222
16	333	Services	4,191,784	3.33%	139,586
17	334	Meters	4,137,013	8.33%	344,613
18	335	Hydrants	2,054,522	2.00%	41,090
19	336	Backflow Prevention Devices	38,387	6.67%	2,560
20	339	Other Plant and Miscellaneous Equipment	260,106	6.67%	17,349
21	340	Office Furniture and Equipment	551,757	6.67%	36,802
22	340.1	Computers and Software	-	20.00%	-
23	341	Transportation Equipment	159,496	20.00%	31,899
24	342	Stores Equipment	31,711	4.00%	1,268
25	343	Tools, Shop, and Garage Equipment	23,351	5.00%	1,168
26	344	Laboratory Equipment	-	10.00%	-
27	345	Power Operated Equipment	-	5.00%	-
28	346	Communications Equipment	115,801	10.00%	11,580
29	347	Miscellaneous Equipment	-	10.00%	-
30	348	Other Tangible Plant	-		-
31		**TOTALS**	**$ 72,890,590**		**$ 2,316,357**
32					
33					
34		Proposed Depreciation Expense Per RUCO			$ 2,316,357
35					
36		Less: Amortization of Contributions in Aid of Construction (per Company)			(67,586)
37					
38		Total Proposed Depreciation Expense Per RUCO			$ 2,248,771
39					
40		Total Proposed Depreciation Expense Per Company			$ 2,291,982
41					
42		Net Decrease to Depreciation Expense			$ (43,211)
43					
44		**RUCO Adjustment To Plant Depreciation Expense**			**$ (43,211)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9b
TO DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	REFERENCE	1999 Series Bonds (A)	2001 Series Bonds (B)	Combined Total (A) + (B)
1	Aggregate Principal Balance of IDA Bonds		$5,335,000	$7,500,000	$12,835,000
2	Allowable Debt Issuance Cost	1999 & 2001 IDA Bond Contracts	2.00%	2.00%	
3					
4	Total Allowable Debt Issuance Cost	Line 1 X Line 2	$ 106,700	$ 150,000	$ 256,700
5	Term of Bond Issue, in Years	1999 & 2001 IDA Bond Contracts	24	30	
6					
7	Annual Debt Issuance Amortization Expense	Line 4 / Line 5	$ 4,446	$ 5,000	$ 9,446
8	Cost Allocation Percentage to Water Division				50.00%
9					
10	Total Amortization of Debt Discount Per RUCO				$ 4,723
11					
12	Test Year Adjusted Amortization of Debt Discount As Filed				$ 11,465
13					
14	**RUCO Adjustment To Amortization of Debt Discount**				$ (6,742)
15					
16	**TOTAL RUCO ADJUSTMENT TO DEPRECIATION EXPENSE**				**$ (6,742)**

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 10
TO PROPERTY TAX

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
1	Calculation Of The Company's Full Cash Value:			
2				
3	Annual Operating Revenues:			
4	Year Ended 09/30/2008	Co. Sch E-2, Line 2	$ 6,851,029	
5	Year Ended 09/30/2007	Co. Sch E-2, Line 2	6,749,901	
6	Year Ended 09/30/2006	Co. Sch E-2, Line 2	6,389,605	
7	Total Three Year Operating Revenues	Sum of Lines 4, 5, & 6	$ 19,990,535	
8	Average Annual Operating Revenues	Line 7 / 3	$ 6,663,512	
9				
10	Two Times Three Year Average Operating Revenues	Line 8 X 2		$ 13,327,023
11				
12	ADD:			
13	10% of construction Work In Progress ("CWIP"):			
14	Test Year CWIP	Co. Sch E-1, Line 4	$ (222,258)	
15	10% of CWIP	Line 14 X 10%		$ (22,226)
16				
17	SUBTRACT:			
18	Transportation at Book Value:			
19	Original Cost of Transportation Equipment			
20	Accum. Depr. Of Transportation Equipment			
21	Book Value of Transportation Equipment	Line 19 + Line 20		$ -
22				
23	Company's Full Cash Value ("FCV")	Sum of Lines 10, 15, & 21		13,304,798
24				
25	Calculation Of The Company's Tax Liability:			
26				
27	MULTIPLY:			
28	FCV X Valuation Assessment Ratio X Property Tax Rates:			
29	Assessment Ratio (2010)	House Bill 2779	22.5000%	
30	Assessed Value	Line 23 X 29	$ 2,993,579	
31				
32	Property Tax Rates:			
33	Primary Tax Rate	JMM 1.50 - 2008 Budget	7.1250%	
34	Secondary Tax Rate	JMM 1.50 - 2008 Budget	4.0690%	
35	Estimated Tax Rate Liability	Line 33 + Line 34	11.1940%	
36				
37	Company's Total Tax Liability - Based on Full Cash V:	Line 30 X Line 35		$ 335,101
38				
39	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1, Line 28		373,354
40	Decrease in Property Tax Expense	Line 37 - Line 39		$ (38,253)
41				
42	**TOTAL RUCO ADJUSTMENT TO PROPERTY TAXES**			**$ (38,253)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 11 TO INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE		(B) AMOUNT
1	**FEDERAL INCOME TAXES:**			
2				
3	Operating Income Before Taxes	Sch 4, Page 1, Col C, Lines 31 + 34	$	368,326
4	Less:			
5	Arizona State Tax	Line 21	$	3,903
6	Interest Expense	Note (A), Line 35		(424,341)
7	Federal Taxable Income	Line 3 + Line 5 + Line 6	$	(52,112)
8				
9	Federal Tax Rate	Schedule 1, Page 2		34.0000%
10	Federal Income Tax Expense	Line 7 X Line 9	$	(17,718)
11				
12	**STATE INCOME TAXES:**			
13				
14	Operating Income Before Taxes	Sch 4, Page 1, Col C, Lines 32 + 37	$	368,326
15	LESS:			
16	Interest Expense	Note (A), Line 35		(424,341)
17	State Taxable Income	Line 14 + Line 16	$	(56,015)
18				
19	State Tax Rate	Tax Rate		6.9680%
20				
21	State Income Expense	Line 17 X Line 19	$	(3,903)
22				
23	**TOTAL INCOME TAX EXPENSE:**			
24	Federal Income Tax Expense	Line 10	$	(17,718)
25	State Income Tax Expense	Line 21		(3,903)
26	Total Income Tax Expense Per RUCO	Line 24 + Line 25	$	(21,621)
27	Total Income Tax Expense Per Company	Company Sch C-1		(449,717)
28	**Total RUCO Income Tax Adjustment**	Line 26 - Line 27	**$**	**428,096**
29				
30				
31	*NOTE (A)*			
32	Interest Synchronization:			
33	Adjusted Rate Base	$ 37,222,878		
34	Weighted Avg. Cost of Debt	1.14%		
35	Synchronized Interest Expense (L33 X L34)	$ 424,341		

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Water Bill Count Summary

LINE NO.	Meter Size/Class		Company Present Rates		RUCO Proposed Rates		Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
1	***Residential***							
2	5/8 inch meter	$	7,865	$	11,737	$	3,872	49.23%
3	3/4 inch meter		2,015,346		2,955,672		940,326	46.66%
4	1 inch meter		1,980,115		3,393,468		1,413,353	71.38%
5	1.5 inch meter		53,017		99,093		46,076	86.91%
6	2 inch meter		173,915		305,411		131,496	75.61%
7	4 inch meter		19,356		30,621		11,265	58.20%
8	**Subtotal Residential**	**$**	**4,249,614**	**$**	**6,796,003**	**$**	**2,546,389**	59.90%
9								
10	***Commercial***							
11	5/8 inch meter	$	25,665	$	52,136	$	26,471	103.14%
12	3/4 inch meter		12,070		20,428		8,358	69.25%
13	1 inch meter		28,688		49,253		20,565	71.68%
14	1.5 inch meter		65,438		119,503		54,065	82.62%
15	2 inch meter		413,985		701,546		287,561	69.46%
16	4 inch meter		76,058		117,762		41,704	54.83%
17	8 inch meter		403,707		576,533		172,826	42.81%
18	10 inch meter		17,579		31,111		13,532	76.98%
19	**Subtotal Commercial**	**$**	**1,043,190**	**$**	**1,668,272**	**$**	**625,082**	61.13%
20								
21	***Irrigation***							
22	5/8 inch meter	$	1,076	$	2,433		1,357	126.09%
23	3/4 inch meter		36,882		74,860		37,978	102.97%
24	1 inch meter		153,062		284,781		131,719	86.06%
25	1.5 inch meter		156,419		301,284		144,865	92.61%
26	2 inch meter		895,159		1,333,216		438,057	48.94%
27	4 inch meter		104,340		157,617		53,277	51.06%
28	**Subtotal Irrigation**	**$**	**1,346,938**	**$**	**2,154,191**	**$**	**807,253**	59.08%
29								
30	**Hydrant**	**$**	**110,558**	**$**	**176,809**	**$**	**66,251**	59.92%
31								
32	**Total Metered Revenue**	**$**	**6,750,300**	**$**	**10,795,274**	**$**	**4,044,974**	59.92%

Litchfield Park Service Company - Water Division
Docket No. SW-01428A09-0103
Test Year Ended September 30, 2008

PROPOSED RATES AND CHARGES

LINE NO.	DESCRIPTION	MONTHLY MINIMUM	PROPOSED CHARGES AND USAGE FEES
1	**RESIDENTIAL CUSTOMERS**		
2	5/8-inch & 3/4-inch Meters	$ 10.00	
3	First Tier - Zero to 5,000 Gallons		$ 1.000
4	Second Tier - Next 7,000 Gallons		1.944
5	Third Tier - In Excess Of 12,000 Gallons		3.500
6			
7	1-inch Meters	$ 25.00	
8	First Tier - First 50,000 Gallons		$ 1.944
9	Second Tier - In Excess Of 50,000 Gallons		3.500
10			
11	1.5-inch Meters	$ 50.00	
12	First Tier - First 100,000 Gallons		$ 1.944
13	Second Tier - In Excess Of 100,000 Gallons		3.500
14			
15	2-inch Meters	$ 80.00	
16	First Tier - First 100,000 Gallons		$ 1.944
17	Second Tier - In Excess Of 100,000 Gallons		3.500
18			
19	4-inch Meters	$ 250.00	
20	First Tier - First 400,000 Gallons		$ 1.944
21	Second Tier - In Excess Of 400,000 Gallons		3.500
22			
23	**COMMERCIAL CUSTOMERS**		
24	5/8-inch & 3/4-inch Meters	$ 10.00	
25	First Tier - Zero to 5,000 Gallons		$ 1.000
26	Second Tier - Next 7,000 Gallons		1.944
27	Third Tier - In Excess Of 12,000 Gallons		3.500
28			
29	1-inch Meters	$ 25.00	
30	First Tier - First 50,000 Gallons		$ 1.944
31	Second Tier - In Excess Of 50,000 Gallons		3.500
32			
33	1.5-inch Meters	$ 50.00	
34	First Tier - First 100,000 Gallons		$ 1.944
35	Second Tier - In Excess Of 100,000 Gallons		3.500
36			
37	2-inch Meters	$ 80.00	
38	First Tier - First 100,000 Gallons		$ 1.944
39	Second Tier - In Excess Of 100,000 Gallons		3.500

PROPOSED RATES AND CHARGES

LINE NO.	DESCRIPTION		MONTHLY MINIMUM		PROPOSED CHARGES AND USAGE FEES
40					
41	4-inch Meters	$	250.00		
42	First Tier - First 400,000 Gallons			$	1.944
43	Second Tier - In Excess Of 400,000 Gallons				3.500
44					
45	8-inch Meters	$	760.00		
46	First Tier - First 500,000 Gallons			$	1.850
47	Second Tier - In Excess Of 500,000 Gallons				3.500
48					
49	10-inch Meters	$	1,000.00		
50	First Tier - First 600,000 Gallons			$	1.850
51	Second Tier - In Excess Of 600,000 Gallons				3.500
52					
53	**IRRIGATION CUSTOMERS**				
54	5/8-inch & 3/4-inch Meters	$	10.00		
55	First Tier - First 12,000 Gallons			$	1.920
56	Second Tier - In Excess Of 12,000 Gallons				3.679
57					
58	1-inch Meters	$	25.00		
59	First Tier - First 60,000 Gallons			$	1.920
60	Second Tier - In Excess Of 60,000 Gallons				3.679
61					
62	1.5-inch Meters	$	50.00		
63	First Tier - First 100,000 Gallons			$	1.920
64	Second Tier - In Excess Of 100,000 Gallons				3.679
65					
66	2-inch Meters	$	80.00		
67	First Tier - First 150,000 Gallons			$	1.920
68	Second Tier - In Excess Of 150,000 Gallons				3.679
69					
70	4-inch Meters	$	250.00		
71	First Tier - First 200,000 gallons			$	1.920
72	Second Tier - In Excess Of 200,000 Gallons				3.679
73					
74	**Hydrant Rate**	$	160.20	$	4.00

Exhibit 2

DIRECT TESTIMONY

OF

SONN S. ROWELL, CPA

Wastewater Division Schedules

Litchfield Park Service Company - Wastewater Division
Docket No. SW-01428-09-0103 and W-01427A-09-0104
Test Year Ended September 30, 2008

Revenue Requirement

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	$ 28,296,903	$ 21,248,950
2			
3	Adjusted Operating Income/(Loss)	163,778	528,810
4			
5	Current Rate of Return (L3 / L1)	0.58%	2.49%
6			
7	Required Operating Income (L9 X L1)	$ 3,228,677	$ 1,640,419
8			
9	Required Rate of Return on Fair Value Rate Base	11.410%	7.720%
10			
11	Operating Income Deficiency (L7 - L3)	$ 3,064,899	$ 1,111,609
12			
13	Gross Revenue Conversion Factor (Schedule 1, Page 2)	1.6286	1.6286
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13	$ 4,991,601	$ 1,810,405
16			
17	Adjusted Test Year Revenue	$ 6,356,374	$ 6,359,187
18			
19	Proposed Annual Revenue (L15 + L17)	$ 11,347,975	$ 8,169,592
20			
21	Required Percentage Increase in Revenue (L15 / L17)	78.53%	28.47%
22			
23	Rate of Return on Common Equity	12.500%	8.010%

Litchfield Park Service Company - Wastewater Division
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GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (Line 12)	(0.3860)			
3	Subtotal (Line 1 + Line 2)	0.6140			
4	**Revenue Conversion Factor** (L1 / L3)	**1.6286**			
5					
6	CALCULATION OF EFFECTIVE TAX RATE:				
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Col. (D), L43)	34.0000%			
11	Effective Federal Income Tax Rate (L9 X L10)	31.6309%			
12	Combined Federal And State Income Tax Rate (L8 + L11)	38.5989%			
13					
14	Required Operating Income (Sch.-1, Pg 1, Col. (B), L7)	$ 1,640,419			
15	Adjusted T.Y. Oper'g Inc. (Loss) (Sch.-1, Pg 1, C (B), L3)	528,810			
16	Required Increase In Operating Income (L14 - L15)		$1,111,609		
17					
18	Income Taxes On Recommended Revenue (Col. (D), L31)	$ 878,945			
19	Income Taxes On Test Year Revenue (Col. (D), L40)	180,149			
20	Required Increase In Revenue To Provide For Income Taxes (L18 - L19)		$ 698,796		
21					
22	Total Required Increase In Revenue (L16 + L20)		$1,810,405		
23				RUCO	
24	CALCULATION OF INCOME TAX:			RECOMMENDED	
25	Revenue (Sch -1, Pg 1, Col. (B), L19)			$ 8,169,592	
26	Operating Expense Excluding Income Tax (Sch4, Col. (E), L37 - L32)			5,650,228	
27	Synchronized Interest (Col. (C), L48)			242,238	
28	Arizona Taxable Income (L25 - L26 - L27)			$ 2,277,126	
29	Arizona State Income Tax Rate			6.9680%	
30	Arizona Income Tax (L28 X L29)				$ 158,670
31	Fed. Taxable Income (L28 - L30)			$ 2,118,456	
32	Fed. Tax on 1st Inc. Bracket ($1 - $50,000) @ 15%			$ 7,500	
33	Fed. Tax on 2nd Inc. Bracket ($50,001 - $75,000) @ 25%			6,250	
34	Fed. Tax on 3rd Inc. Bracket ($75,001 - $100,000) @ 34%			8,500	
35	Fed. Tax on 4th Inc. Bracket ($100,001 - $335,000) @ 39%			91,650	
36	Fed. Tax on 5th Inc. Bracket ($335,001 - $10M) @ 34%			606,375	
37	Total Federal Income Tax (L32 + L33 + L34 + L35 + L36)				720,275
38	Combined Federal and State Income Tax (L30 + L37)				$ 878,945
39					
40	Test Year Combined Income Tax, RUCO as Adjusted (Sch 4, Col. (C), L32)				$ 180,149
41	**RUCO Adjustment To Proposed Income Tax (L38 - L40) (See Sch 1, Col. (D), L32)**				**$ 698,796**
42					
43	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
44					
45	CALCULATION OF INTEREST SYNCHRONIZATION:				
46	Rate Base			$ 21,248,950	
47	Weighted Avg. Cost of Debt			1.14%	
48	Synchronized Interest (L35 X L36)			$ 242,238	

Litchfield Park Service Company - Wastewater Division
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Test Year Ended September 30, 2008

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJM'T No. 1	(C) RUCO ADJM'T No. 2	(D) RUCO ADJM'T No. 3	(E) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant in Service	$ 60,394,260	$(6,693,440)			$ 53,700,820
2						-
3	Accumulated Depreciation	(8,475,991)	291,308			(8,184,683)
4						-
5	Net Utility Plant in Service (Sum L1 & L3)	$ 51,918,269	$(6,402,132)	$ -	$ -	$ 45,516,137
6						-
7	**Less:**					-
8	Advances in Aid Of Construction	$ (7,006,208)				$ (7,006,208)
9						-
10	Contribution in Aid of Const.	$ (18,737,132)			$ (597,670)	(19,334,802)
11	Accumulated Amortization of CIAC	2,072,117				2,072,117
12	NET CIAC (L10 + L11)	$ (16,665,015)	$ -	$ -	$ (597,670)	$ (17,262,685)
13						-
14	Customer Meter Deposits	$ (68,685)				$ (68,685)
15	Deferred Income Tax	(15,987)				(15,987)
16						-
17	**Plus:**					-
18	Unamortized Debt Issuance Costs	$ 134,528		$ (48,150)		86,378
19						-
20						-
21						-
22	TOTAL RATE BASE (Sum Lines's 5,8,12-19)	$ 28,296,902	$(6,402,132)	$ (48,150)	$ (597,670)	$ 21,248,950

References:
Column (A): Company Schedule B-1
Column (B): RUCO Schedule 2, Page 2
Column (C): RUCO Schedule 2, Page 3
Column (D): RUCO Schedule 2, Page 4
Column (E): Sums of Column (A) through Column (D)

EXPLANATION OF RATE BASE ADJUSTMENT NO. 1
TO UTILITY PLANT IN SERVICE

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	RUCO Proposed Utility Plant In Service At End of Test Year	$ 53,700,820	RUCO Schedule 3, Page 1
2			
3	Company Proposed Utility Plant In Service At End of Test Year	60,394,260	Company Schedule B-1
4			
5	**RUCO Proposed Adjustment To Utility Plant in Service**	**$ (6,693,440)**	
6			
7			
8	Accumulated Depreciation At End of Prior Test Year	$ 1,261,559	Amount Per RUCO TJC-2
9	2001 Depreciation Expense	263,975	
10	2002 Depreciation Expense	450,920	
11	2003 Depreciation Expense	951,378	
12	2004 Depreciation Expense	1,029,280	
13	2005 Depreciation Expense	1,176,009	
14	2006 Depreciation Expense	1,292,454	
15	2007 Depreciation Expense	1,373,687	
16	2008 Depreciation Expense (9 months)	1,166,295	
17	Subtotal	$ 8,965,557	Sum of Lines 16 through 19
18			
19	Less 2002 Retirements	$ (780,874)	
20			
21	RUCO Proposed Accumulated Depreciation At End of Test Year	$ 8,184,683	Sum of Lines 17, 19, and 20
22			
23	Company Proposed Accumulated Depreciation At End of Test Year	$ 8,475,991	Company Schedule B-1
24			
25	**RUCO Proposed Adjustment To Accumulated Depreciation**	**$ (291,308)**	Line 22 - Line 24

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2
TO UNAMORTIZED DEBT ISSUANCE COSTS

Line No.	Description	(A) 1999 Series Bonds	(B) 2001 Series Bonds	(C) Combined Total (A) + (B)
1	Aggregate Principal Balance of IDA Bonds	$ 5,335,000	$ 7,500,000	$ 12,835,000
2	Allowable Debt Issuance Cost as per 1999 & 2001 IDA Bond Contracts	2.00%	2.00%	
3				
4	Total Allowable Debt Issuance Cost (L1 X L2)	$ 106,700	$ 150,000	$ 256,700
5	Term of Bond Issue, in Years	24	30	
6				
7	Annual Debt Issuance Amortization Expense - Straight Line (L4 / L5)	$ 4,446	$ 5,000	$ 9,446
8	Number of Months in Year	12	12	
9				
10	Allowable Monthly Amortization Expense (L7 / L8)	$ 370	$ 417	$ 787
11	Months Remaining before the Bonds Reach Maturity*	168	264	
12				
13	Unamortized Debt Issuance Costs -- RUCO as Adjusted (L10 X L11)	$ 62,242	$ 110,000	$ 172,242
14				
15				
16	Unamortized Debt Issuance Costs -- Company as Filed	$ 141,268	$ 127,274	$ 268,542
17				
18	Unamortized Debt Issuance costs -- RUCO as Adjusted	62,242	110,000	172,242
19				
20	**Decrease to Unamortized Debt Issuance Costs**	**$ (79,027)**	**$ (17,274)**	**$ (96,301)**
21				
22		Wastewater Division Cost Allocation Percent		50.00%
23				
24		**RUCO Unamortized Debt Issuance costs - Wastewater Division**		**$ (48,150)**

* Information on the months remaining before the bonds reach maturity was provided in the Company's response to Staff Data Request JMM 1.32, with the 1999 Series IDA Bonds maturing October 1, 2023, and the 2001 Series IDA Bonds Maturing October 1, 2031.

EXPLANATION OF RATE BASE ADJUSTMENT NO. 3 TO CONTRIBUTIONS IN AID OF CONSTRUCTION

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	CIAC Balance Per Application	18,737,132	Company Schedule B-2 Page 2
2			
3	CIAC Balance Per Response to Staff Data Request	19,334,802	Company Response to JMM 1.27
4			
5	Increase to CIAC	$ 597,670	Line 3 - Line 1
6			
7	**RUCO Proposed Adjustment To CIAC Balance**	**$ 597,670**	Line 5

TEST YEAR PLANT SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) COMPANY ADJ TEST YR	(B) RUCO ADJUSTMENTS	(C) RUCO PLANT VALUE
1	351	Organization	$ -	$ -	$ -
2	353	Land and Land Rights	1,783,426	-	1,783,426
3	354	Structures and Improvements	19,319,421	(4,267,451)	15,051,970
4	355	Power Generation Equipment	543,670	5,004	548,674
5	360	Collection Sewers - Force	1,161,105	(164,647)	996,458
6	361	Collection Sewers - Gravity	23,113,391	(1,795,760)	21,317,631
7	362	Special Collecting Structures		-	-
8	363	Customer Services		-	-
9	364	Flow Measuring Devices	47,019	(412)	46,607
10	366	Reuse Services	3,789,468	(1,249)	3,788,219
11	367	Reuse Meters and Installation	52,331	-	52,331
12	370	Receiving Wells	860,393	-	860,393
13	371	Pumping Equipment	1,858,411	(284,996)	1,573,415
14	374	Reuse Distribution Reservoirs	62,825	-	62,825
15	375	Reuse Trans. And Distrib. System	414,315	(73,638)	340,677
16	380	Treatment and Disposal Equipment	5,469,478	(63,807)	5,405,671
17	381	Plant Sewers	47,786	(178)	47,608
18	382	Outfall Sewer Lines	343,681	-	343,681
19	389	Other Plant and Miscellaneous Equipment	644,609	(41,454)	603,155
20	390	Office Furniture and Equipment	198,772	-	198,772
21	391	Transportation Equipment	26,078	-	26,078
22	392	Stores Equipment	8,968	-	8,968
23	393	Tools, Shop, and Garage Equipment	56,167	-	56,167
24	394	Laboratory Equipment	173,948	-	173,948
25	396	Communications Equipment	418,996	(4,850)	414,146
26	398	Other Tangible Plant	-	-	-
27					
28		**TOTAL WASTEWATER PLANT**	**$ 60,394,258**	**$ (6,693,438)**	**$ 53,700,820**

Litchfield Park Service Company - Wastewater Division
Docket No. SW-01428-09-0103 and W-01427A-09-0104
Test Year Ended September 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	COMPANY AS FILED	RUCO ADJ 1	RUCO ADJ 2	RUCO ADJ 3	RUCO ADJ 4	RUCO ADJ 5	RUCO ADJ 6	RUCO ADJ 7	RUCO ADJ 8	TOTAL PG 1 ADJ
1	351	Organization	$ -									$ -
2	353	Land	1,783,426									-
3	354	Structures & Improvements	19,482,740		$ (36,500)	$ (348,603)	$ (83,652)			$ 3,725		(465,030)
4	355	Power Generation	543,670						$ 5,004			5,004
5	360	Collection Sewer Forced	1,180,730									-
6	361	Collection Sewers Gravity	23,517,829	$ (1,230,049)		(7,527)	$ (1,203)					(1,238,779)
7	362	Special Collecting Structures	-									-
8	363	Customer Services	-									-
9	364	Flow Measuring Devices	47,360									-
10	366	Reuse Services	3,791,018									-
11	367	Reuse Meters and Installation	52,331									-
12	370	Receiving Wells	860,393									-
13	371	Pumping Equipment	1,872,539			(91,921)	(12,071)		$ 1,530	$ 4,864	$ (136,488)	(234,086)
14	374	Reuse Distribution Reservoirs	62,625									-
15	375	Reuse Trans. and Dist. System	414,315									-
16	380	Treatment & Disposal Equip.	5,487,661					$ (38,625)				(38,625)
17	381	Plant Sewers	48,010									-
18	382	Outfall Sewer Lines	343,681									-
19	389	Other Sewer Plant & Equip.	673,896						$ 2,000			2,000
20	390	Office Furniture & Equipment	198,772									-
21	391	Transportation Equipment	26,078									-
22	392	Stores Equipment	8,967									-
23	393	Tools, Shop And Garage Equip	56,167									-
24	394	Laboratory Equip	173,948									-
25	396	Communication Equip	418,996									-
26	398	Other Tangible Plant	-									-
27												
28		**TOTALS**	$ 61,045,153	$ (1,230,049)	$ (36,500)	$ (448,051)	$ (96,926)	$ (38,625)	$ 8,534	$ 8,589	$ (136,488)	$ (1,969,516)
29												
30												
31	ADJ 1	Adjust for differences in beginning plant balances.										
32	ADJ 2	Disallow costs of 2004 PACE Report.										
33	ADJ 3	Record abandonment of Wigwam and Bullard lift stations in July of 2002.										
34	ADJ 4	Record abandonment of Litchfield Greens lift stations in September of 2007.										
35	ADJ 5	Remove water treatment plant transferred to Black Mountain Sewer Company in 2008.										
36	ADJ 6	Capitalize test year expenses in 2007 from Loftin Equipment, Precision Electric, and KEOGH Engineering.										
37	ADJ 7	Capitalize test year expenses in 2008 from Precision Electric and Dean Fence & Gate.										
38	ADJ 8	Reclassify Repair invoices from Precision Electric during 2008 to Contractual Services - Other.										

LINE NO.	ACCT. NO.	ACCOUNT NAME	RUCO ADJ 9	RUCO ADJ 10	RUCO ADJ 11	RUCO ADJ 12	RUCO ADJ 13	RUCO ADJ 14	RUCO ADJ 15	RUCO ADJ 16	TOTAL PG 2 ADJ
1	351	Organization									$ -
2	353	Land									-
3	354	Structures & Improvements		$ 31,804	$ 14,187	$ 1,378	$ 57,739	$ 58,210	$ (55,508)	$ (40,684)	67,126
4	355	Power Generation									-
5	360	Collection Sewer Forced		11,360	7,843	268		154	(30,284)	(21,550)	(32,209)
6	361	Collection Sewers Gravity		51,113	135,919	78,415	102,212	36,779	(125,280)	(327,018)	(47,860)
7	362	Special Collecting Structures									-
8	363	Customer Services									-
9	364	Flow Measuring Devices			341					(753)	(412)
10	366	Reuse Services					665	886			1,551
11	367	Reuse Meters and Installation									-
12	370	Receiving Wells									-
13	371	Pumping Equipment	$ (33,887)	604	11,712	568	70	1,174	(1,300)	(25,638)	(46,697)
14	374	Reuse Distribution Reservoirs									-
15	375	Reuse Trans. and Dist. System									-
16	380	Treatment & Disposal Equip.		1,063	872	4,522	11,615	111	(2,000)	(1,860)	14,323
17	381	Plant Sewers						222			222
18	382	Outfall Sewer Lines									-
19	389	Other Sewer Plant & Equip.		11,334	1,715	443	1,357	14,506	(23,209)	(3,750)	2,396
20	390	Office Furniture & Equipment									-
21	391	Transportation Equipment									-
22	392	Stores Equipment									-
23	393	Tools, Shop And Garage Equip									-
24	394	Laboratory Equip									-
25	396	Communication Equip									-
26	398	Other Tangible Plant									-
27											
28		**TOTALS**	$ (33,887)	$ 107,278	$ 172,589	$ 85,594	$ 173,658	$ 112,042	$ (237,581)	$ (421,253)	$ (41,560)
29											
30											

LINE NO.		
31	ADJ 9	Reclassify Repair invoice from Precision Electric during 2007 to Contractual Services - Other, and remove Precision repair invoice from 2007. The
32		first invoice ($14,691) is within the test year and includable in expense, while the second ($19,196) is outside the test year, and not included in expense.
33	ADJ 10	Reverse Company Adjustment for 2004 Affiliate Profit
34	ADJ 11	Reverse Company Adjustment for 2005 Affiliate Profit
35	ADJ 12	Reverse Company Adjustment for 2006 Affiliate Profit
36	ADJ 13	Reverse Company Adjustment for 2007 Affiliate Profit
37	ADJ 14	Reverse Company Adjustment for 2008 Affiliate Profit
38	ADJ 15	Remove 2004 unsupported affiliate labor costs by estimated year related asset placed in service.
39	ADJ 16	Remove 2005 unsupported affiliate labor costs by estimated year related asset placed in service.

Litchfield Park Service Company - Wastewater Division
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Test Year Ended September 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	RUCO ADJ 17	RUCO ADJ 18	RUCO ADJ 19	RUCO ADJ 20	TOTAL PG 3 ADJ	TOTAL ALL ADJS
1	351	Organization					$ -	$ -
2	353	Land					-	-
3	354	Structures & Improvements	$ (7,035)		$ (362,512)	$ (3,500,000)	(3,869,547)	(4,267,451)
4	355	Power Generation					-	5,004
5	360	Collection Sewer Forced	(131,238)		(1,200)		(132,438)	(164,647)
6	361	Collection Sewers Gravity	(162,996)	$ (288,769)	(57,356)		(509,121)	(1,795,760)
7	362	Special Collecting Structures					-	-
8	363	Customer Services					-	-
9	364	Flow Measuring Devices					-	(412)
10	366	Reuse Services		(1,200)	(1,600)		(2,800)	(1,249)
11	367	Reuse Meters and Installation					-	-
12	370	Receiving Wells					-	-
13	371	Pumping Equipment	(1,200)	(200)	(2,813)		(4,213)	(284,996)
14	374	Reuse Distribution Reservoirs					-	-
15	375	Reuse Trans. and Dist. System			(73,638)		(73,638)	(73,638)
16	380	Treatment & Disposal Equip.	(8,756)	(30,549)	(200)		(39,505)	(63,807)
17	381	Plant Sewers			(400)		(400)	(178)
18	382	Outfall Sewer Lines					-	-
19	389	Other Sewer Plant & Equip.	(800)	(2,450)	(42,600)		(45,850)	(41,454)
20	390	Office Furniture & Equipment					-	-
21	391	Transportation Equipment					-	-
22	392	Stores Equipment					-	-
23	393	Tools, Shop And Garage Equip					-	-
24	394	Laboratory Equip					-	-
25	396	Communication Equip			(4,850)		(4,850)	(4,850)
26	398	Other Tangible Plant					-	-
27								
28		**TOTALS**	$ (312,025)	$ (323,168)	$ (547,169)	$ (3,500,000)	$ (4,682,362)	$ (6,693,438)
29								
30								

31 ADJ 17 Remove 2006 unsupported affiliate labor costs by estimated year related asset placed in service.
32 ADJ 18 Remove 2007 unsupported affiliate labor costs by estimated year related asset placed in service.
33 ADJ 19 Remove 2008 unsupported affiliate labor costs by estimated year related asset placed in service.
34 ADJ 20 Remove costs associated with correcting design deficiencies at the PVWRF at 50% of amount incurred and placed in
35 service during the Test Year per direct testimony of Greg Sorensen at page 7.

Litchfield Park Service Company - Wastewater Division
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OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	REF	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO AS RECOMM'D
1	Revenues						
2	Flat Rate Revenues	$ 6,164,589			$ 6,164,589	$ 1,471,507	$ 7,636,096
3	Measured Revenues	92,030	2,813	1	94,843	338,898	433,741
4	Other Wastewater Revenues	99,755			99,755		99,755
5					-		-
6	TOTAL OPERATING REVENUE	$ 6,356,374	$ 2,813		$ 6,359,187	$ 1,810,405	$ 8,169,592
7							
8	Operating Expenses						
9	Salaries & Wages	$ -			$ -		$ -
10	Purchased Wastewater Treatment	1,205			1,205		1,205
11	Sludge Removal Expense	267,554			267,554		267,554
12	Purchased Power	632,064	(406)	2/3	631,658		631,658
13	Fuel for Power Production	2,076	(425)	2	1,651		1,651
14	Chemicals	279,749	(12,089)	3	267,660		267,660
15	Materials and Supplies	75,579	(13,520)	8	62,059		62,059
16	Contractual Services	3,117			3,117		3,117
17	Contractual Services - Testing	33,348	(6,398)	5	26,951		26,951
18	Contractual Services - Other	2,716,000	(222,124)	4a-e	2,493,876		2,493,876
19	Contractual Services - Legal	24,084			24,084		24,084
20	Equipment Rental	78,309	(4,387)	7	73,922		73,922
21	Rents - Building	18,976			18,976		18,976
22	Transportation Expenses	69,551	(17,726)	6	51,825		51,825
23	Insurance - General Liability	32,133			32,133		32,133
24	Insurance - Vehicle	2,213			2,213		2,213
25	Regulatory Comm, Expense	19,133			19,133		19,133
26	Regulatory Comm, Exp. - Rate Case	70,000	(20,000)	14	50,000		50,000
27	Miscellaneous Expense	36,656	(6,409)	9	30,247		30,247
28	Bad Debt Expense	43,889	(40,848)	10	3,041		3,041
29	Depreciation & Amortization	1,550,237	(234,980)	11a-b	1,315,257		1,315,257
30	Taxes Other Than Income	-			-		-
31	Property Taxes	336,629	(62,962)	12	273,667		273,667
32	Income Tax	(99,906)	280,055	13	180,149	698,796	878,945
33					-		-
34							
35	TOTAL OPERATING EXPENSES	$ 6,192,596	$ (362,219)		$ 5,830,377	$ 698,796	$ 6,529,173
36							
37	**OPERATING INCOME (LOSS)**	**$ 163,778**	**$ 365,032**		**$ 528,810**	**$ 1,111,608**	**$ 1,640,419**

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
TO MEASURED REVENUES**

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Company Test Year Effluent Revenue per data Response	$ 94,843	RUCO MJR 2.19 and 2.20
2			
3	Company Test Year Effluent Revenue per Application	92,030	Schedule C-1
4			
5	**RUCO Adjustment to Increase Test Year Effluent Revenue**	**$ 2,813**	

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TO FUEL FOR POWER PRODUCTION

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	APS	MAY08-342122282	$ (425)
2			
3	**RUCO Adjustment to Move Expense to Purchased Power**		**$ (425)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3 TO CHEMICALS

LINE NO.	DESCRIPTION	REFERENCE		AMOUNT
1	HILL BROTHERS CHEMICAL CO.	Invoice No. 04293182	$	(891)
2	HILL BROTHERS CHEMICAL CO.	Invoice No. 04293614		(267)
3	HILL BROTHERS CHEMICAL CO.	Invoice No. 04293602		(2,226)
4	Ashland Specialty	Invoice No. 2500042992		(9,618)
5				
6	**RUCO Adjustment To Remove Expenses Outside of Test Year**		**$**	**(13,002)**
7				
8				
9	HILL BROTHERS CHEMICAL CO.	Invoice No. 04305583	$	831
10				
11	**RUCO Adjustment To Move Expense from Purchased Power**		**$**	**831**
12				
13	RUCO Adjustment to Company Annualized Chemicals		$	82
14				
15	**TOTAL RUCO ADJUSTMENT TO CHEMICALS**		**$**	**(12,089)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4a
TO CONTRACTUAL SERVICES - OTHER

LINE NO.	DESCRIPTION	REFERENCE		AMOUNT
1	Loftin Equipment Co. (Generator duct fabricated & installed)	Invoice No. 0752086 (Dec. 32, 2007)	$	(5,004)
2	Precision Electric Co. (Install rebuilt pump)	Invoice No. 1-047294 (Oct. 5, 2007)		(1,530)
3	Precision Electric Co. (New reinforced strainer baskets installed	Invoice No. 1-049159 (Mar. 20, 2008)		(4,864)
4	Dean Fence & Gate (Fence fabricated and installed)	Invoice No. 109347 (Jan. 11, 2008)		(3,725)
5	KEOGH Engineering (Odor monitor - site plan and pole mount)	Invoice No. 22477 (Oct. 9, 2007)		(1,450)
6	KEOGH Engineering (Odor monitor - legal description and map)	Invoice No. 22637 (Dec. 6, 2007)		(550)
7				
8	**RUCO Adjustment To Remove Expenses To Be Capitalized**		**$**	**(17,124)**
9				
10				
11	Keller Equipment Co. (Filter System Repair)	Invoice No. 0167123-IN (Sept. 14, 2007)	$	(8,054)
12	Keller Equipment Co. (Work on UV System)	Invoice No. 0167341-IN (Sept. 19, 2007)		(525)
13	Yahweh Contracting, LLC (Remove Sewer Lift Station)	Invoice No. 1 (September 21, 2007)		(8,003)
14				
15	**RUCO Adjustment To Remove Expenses Outside of Test Year**		**$**	**(16,582)**
16				
17				
18	SunCor Farms (Effluent Clean Up and Oat Crop Planting)	Invoice No. 093007LPSCO (Oct. 3, 2007)	$	(19,784)
19				
20	**RUCO Adjustment to Remove Non-Recurring Expenses**		**$**	**(19,784)**
21				
22				
23	GreensKeeper, LLC (Remove weeds at LPSCO Farm)	Invoice No. 4340 (Oct. 18, 2007)	$	(11,500)
24	Pro-Tech Environmental (Clean Sewer Lines in Gilbert, AZ)	Invoice No. 08012201 (Jan. 25, 2008)		(4,928)
25				
26	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**		**$**	**(16,428)**
27				
28				
29	Thomas J. Bourassa, CPA (Professional Service)	Invoice No. 1000002402 (Dec 10, 2007)	$	(155)
30	Thomas J. Bourassa, CPA (Rate Review - Water and Sewer)	Invoice No. 1000002413 (Feb 5, 2008)		(981)
31				
32	**RUCO Adjustment to Remove Expenses Included in Estimated Rate Case Expense**		**$**	**(1,136)**
33				
34				
35		**TOTAL RUCO ADJUSTMENT TO OUTSIDE SERVICES - OTHER**	**$**	**(71,054)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4b TO CONTRACTUAL SERVICES - OTHER AND ADMINISTRATIVE ALLOCATION - AWS

LINE NO.	GENERAL LEDGER ACCOUNT	VENDOR	DESCRIPTION	AMOUNT
1	Contractual Services-AWS	Algonquin Water Services	Recon fees to 4 factor	$ 177,028
2	Contractual Services-AWS	Algonquin Water Services	Recon fees to 4 factor	206,573
3	Admin Allocation-AWS	Algonquin Water Services	Recon fees to 4 factor	(485,716)
4				
5				
6	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**			**$ (102,116)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4c
TO CONTRACTUAL SERVICES - OTHER

LINE NO.	GENERAL LEDGER ACCOUNT	VENDOR	DESCRIPTION	AMOUNT
1	Central Office - Accounting/Administration	Algonquin Power Trust	GENERAL ACCTIN FEE - LPSCO	$ (1,793)
2	Central Office - Human Resources	Algonquin Power Trust	GEN HR FEE- LPSCO	(6,138)
3	Central Office - Information Technology	Algonquin Power Trust	GEN IT FEE- LPSCO	(518)
4	Central Office - Operations	Algonquin Power Trust	GENERAL OPS	(764)
5	Central Office Fixed Overhead Costs	Algonquin Power Trust	MGMT FEE- LPSCO	(182,637)
6				
7	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**			**$ (191,850)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4d
TO CONTRACTUAL SERVICES - OTHER

LINE NO.	DESCRIPTION	ACCOUNT	REFERENCE	AMOUNT
1	Algonquin Water Resources	Meals and Entertainment	MISC. SUPPLIES	$ (488)
2	Algonquin Water Resources	Meals and Entertainment	Expense Reports/Travel	(19,123)
5	Algonquin Water Resources	Meals and Entertainment	DJ SERVICE - XMAS PARTY	(495)
6	Algonquin Water Resources	Meals and Entertainment	For Holiday Party Dec. 2008	(4,959)
7	Algonquin Water Resources	Meals and Entertainment	BALANCE DUE FOR 2008 XMAS PART	(953)
8	Algonquin Water Resources	Meals and Entertainment	2007 CAPITAL PRJECTS PLANNING	(211)
9	Algonquin Water Resources	Meals and Entertainment	Exp cost for the DBack game	(6,400)
10	Algonquin Water Resources	Meals and Entertainment	Catered lunch	(412)
11	Algonquin Water Resources	Licenses, Permits & Fees	FALSE ALARM FINE	(150)
12	Algonquin Water Resources	Licenses, Permits & Fees	FALSE ALARM FINE	(200)
13	Algonquin Water Resources	Licenses, Permits & Fees	Credit for Alarm Violation	250
14	Algonquin Water Resources	Dues & Memberships	HR Membership	(274)
15	Algonquin Water Resources	Dues & Memberships	TWC-FY08 DUES	(1,504)
16	Algonquin Water Resources	Dues & Memberships	TWC FY08 MBRSHIP DUES	(709)
17	Algonquin Water Resources	Dues & Memberships	r/c membership fee for 2008	1,378
18	Algonquin Water Resources	Dues & Memberships	r/c membership fee for 2008	650
19	Algonquin Water Resources	Dues & Memberships	MEMBERSHIP RENEWAL	(160)
20	Algonquin Water Resources	Dues & Memberships	MANAGEMENT PUBLICATIONS	(99)
21	Algonquin Water Resources	Dues & Memberships	Exp Tx Rual Water Assoc. Membe	(383)
22	Algonquin Water Resources	Dues & Memberships	Exp Tx Rual Wtr Assoc Membersh	(383)
23	Algonquin Water Resources	Dues & Memberships	exp Tx Rual Water Assoc Member	(383)
24				
25			Total Expenses	$ (35,008)
26				
27			Wastewater Division Allocation Factor	23.66%
28				
29			**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**	**$ (8,283)**

Note: Account names and references above are per Algonquin journal entries in its general ledger.

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4e
TO CONTRACTUAL SERVICES - OTHER

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	Precision Electric Co., Inc.	Invoice 1-048214	$ 14,691
2	Precision Electric Co., Inc.	Invoice 1-048528	23,931
5	Precision Electric Co., Inc.	Invoice 1-049514A	25,391
6	Precision Electric Co., Inc.	Invoice 1 -050074	14,862
7	Precision Electric Co., Inc.	Invoice 1-050769	1,239
8	Precision Electric Co., Inc.	Invoice 1 -050812	19,924
9	Precision Electric Co., Inc.	Invoice 1 -050929	28,289
10	Precision Electric Co., Inc.	Invoice 1-051517	7,826
11	Precision Electric Co., Inc.	Invoice 1-050563	15,026
12			
13	**Reclassified from Account 371 for Repairs During the Test Year**		**$ 151,179**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
TO CONTRACTUAL SERVICES - TESTING

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	LEGEND TECHNICAL SERVICES	Invoice No. 0714659	$ (28.00)
2	LEGEND TECHNICAL SERVICES	Invoice No. 0714650	(28.00)
3	LEGEND TECHNICAL SERVICES	Invoice No. 0714652	(28.00)
4	LEGEND TECHNICAL SERVICES	Invoice No. 0714647	(28.00)
5	LEGEND TECHNICAL SERVICES	Invoice No. 0714641	(28.00)
6	LEGEND TECHNICAL SERVICES	Invoice No. 0714630	(28.00)
7	LEGEND TECHNICAL SERVICES	Invoice No. 0714601	(252.80)
8	LEGEND TECHNICAL SERVICES	Invoice No. 0714602	(96.00)
9	LEGEND TECHNICAL SERVICES	Invoice No. 0714676	(497.60)
10	LEGEND TECHNICAL SERVICES	Invoice No. 0714665	(28.00)
11	LEGEND TECHNICAL SERVICES	Invoice No. 0714621	(28.00)
12	LEGEND TECHNICAL SERVICES	Invoice No. 0714918	(28.00)
13	LEGEND TECHNICAL SERVICES	Invoice No. 0714916	(28.00)
14	LEGEND TECHNICAL SERVICES	Invoice No. 0714901	(28.00)
15	LEGEND TECHNICAL SERVICES	Invoice No. 0714907	(28.00)
16	LEGEND TECHNICAL SERVICES	Invoice No. 0714896	(28.00)
17	LEGEND TECHNICAL SERVICES	Invoice No. 0712007	(68.00)
18	LEGEND TECHNICAL SERVICES	Invoice No. 0711989	(68.00)
19	LEGEND TECHNICAL SERVICES	Invoice No. 0711986	(68.00)
20	LEGEND TECHNICAL SERVICES	Invoice No. 0711610	(68.00)
21	LEGEND TECHNICAL SERVICES	Invoice No. 0711608	(68.00)
22	Lamb Tech	Invoice No. 1142	(4,375.00)
23	LEGEND TECHNICAL SERVICES	Invoice No. 0807373	(41.60)
24	LEGEND TECHNICAL SERVICES	Invoice No. 0807211	(390.00)
25	LEGEND TECHNICAL SERVICES	Invoice No. 0809433	(40.50)
26			
27	**RUCO Adjustment To Remove Expenses Outside of Test Year**		**$ (6,398)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6 TO TRANSPORTATION EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	Jerry and Lori King	CHK 3152	$ (1,500)
2	Algonquin Water Services	Invoice No. SALES000000001019	(12,910)
3	Algonquin Water Services	Invoice No. SALES000000001036	(3,292)
4			
5	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**		**$ (17,702)**
6			
7			
8	Commonwealth Tow & Transport	Invoice No. 4389	$ (25)
9			
10	**RUCO Adjustment to Remove Non-Recurring Expense**		**$ (25)**
11			
12	**TOTAL RUCO ADJUSTMENT TO TRANSPORTATION EXPENSES**		**$ (17,726)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
TO RENTAL OF EQUIPMENT

LINE NO.	DESCRIPTION	REFERENCE		AMOUNT
1	RAIN FOR RENT	Invoice No. 092011748	$	(2,303)
2	PUMP RENTAL DURING SUPERBOWL	Invoice No. 0038296		(2,084)
3				
4	**RUCO Adjustment to Remove Non-Recurring Expenses**		$	(4,387)
5				
6				
7	**TOTAL RUCO ADJUSTMENT TO RENTAL OF EQUIPMENT**		**$**	**(4,387)**

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Schedule 4

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8
TO MATERIALS AND SUPPLIES

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	Culligan	SEP07-291-09981218-7	$ (169)
2	Culligan	SEP07-291099812260	(184)
3	Culligan	OCT07-291099812187	(186)
4	Culligan	OCT07-291099812260	(375)
5	Culligan	291X08946503	(15)
6	Culligan	291X08946602	(428)
7	Culligan	291X09027402	(97)
8	Culligan	291X09027501	(219)
9	Culligan	291X09106107	(49)
10	Culligan	291X09106206	(353)
11	Culligan	291X09188709	(173)
12	Culligan	291X09188808	(488)
13	Culligan	291X09272404	(322)
14	Culligan	291X09359607	(83)
15	Culligan	291X09359706	(400)
16	Culligan	291X09272305	(51)
17	Culligan	291X09448202	(115)
18	Culligan	291X09448301	(438)
19	Culligan	291X09541600	(317)
20	Culligan	291X09541501	(101)
21	Culligan	291X09641400	(644)
22	Culligan	291X09641301	(126)
23	Culligan	291X09748908	(155)
24	Culligan	291X09749005	(487)
25			
26	**RUÇO Adjustment To Remove Unnecessary/Inappropriate Expenses**		**$ (5,975)**
27			
28			
29	HARRINGTON INDUSTRIAL PLASTICS	Invoice No. 015B0142A	$ (662)
30	Pro-Tec Environmental Inc.	Invoice No. 07091001	(6,351)
31	ZEP MFG COMPANY	Invoice No. 69643508	(256)
32	ZEP MFG COMPANY	Invoice No. 69640081	(276)
33			
34	**RUCO Adjustment To Remove Expenses Outside of Test Year**		**$ (7,545)**
35			
36			
37	**TOTAL RUCO ADJUSTMENT TO MATERIALS AND SUPPLIES**		**$ (13,520)**

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9
TO MISCELLANEOUS EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	Bank Charges	11/5 merchant fee	$ (1,537.71)
2	Bank Charges	Write off Unrec Variance	(338.37)
3	Bank Charges	1/3 Merchant Fees	(862.48)
4	Bank Charges	Merchant Fees	(13.58)
5	Bank Charges	2/5 Merchant Fees	(981.61)
6	Bank Charges	BANK & MERCHANT FEES	(1,109.27)
7	Bank Charges	Merchant Fees	(1,072.00)
8	Meals and Entertainment	PRTS/TOOLS/MLS/GAS/MILGE/TELEP	(91.93)
9	Meals and Entertainment	MATERIAL/TRAVEL/UTILITIES	(76.56)
10	Meals and Entertainment	MTRL/TRVL/TELEPHONE	(27.97)
11	Meals and Entertainment	PARTS/EQPMT/TRAVEL/TELEPHONE	(116.41)
12	Meals and Entertainment	PARTS/TRAVEL/ TELEPHONE	(15.82)
13	Meals and Entertainment	PARTS/TRAVEL/CELLULAR	(14.98)
14	Meals and Entertainment	8600-0200-repairs	(150.74)
15			
16	**RUCO Adjustment To Remove Unnecessary/Inappropriate Expenses**		**$ (6,409)**
17			
18		**TOTAL RUCO ADJUSTMENT TO MISCELLANEOUS EXPENSES**	**$ (6,409)**

Note: Descriptions and references above are per company journal entries in the general ledger.

Litchfield Park Service Company - Wastewater Division
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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 10
TO BAD DEBT EXPENSE

Line No.	Description		Amount
1	Bad Debt Expense -- Company as Filed		$ 43,889
2			
3	Test Year Revenues -- Company as Filed	$ 6,383,886	
4	Bad Debt Percentage -- RUCO Selected	x 0.0476%	
5	Bad Debt Expense -- RUCO Adjusted		3,041
6			
7	**RUCO ADJUSTMENT TO BAD DEBT EXPENSE**		**$ (40,848)**
8			

Line No.	Description	Wastewater Division			Water Division		
9							
10		Wastewater Division			Water Division		
11							
12		(A)	(B)	(C)	(D)	(E)	(F)
13							
14		Test Year	Prior Year	Prior Year	Test Year	Prior Year	Prior Year
15		Ended	Ended	Ended	Ended	Ended	Ended
16	Description	30-Sep-08	30-Sep-07	30-Sep-06	30-Sep-08	30-Sep-07	30-Sep-06
17							
18	Revenues	$6,383,886	$ 6,191,689	$ 5,851,080	$ 6,851,029	$ 6,749,901	$ 6,389,605
19							
20	Bad Debt Expense	$ 43,889	$ 19,632	$ 2,773	$ 3,264	$ 1,898	$ 20,483
21							
22	Bad Debt as a % of Revenues (L3 / L1)	0.6875%	0.3171%	0.0474%	**0.0476%**	0.0281%	0.3206%
23							
24	Growth in Revenues from Prior Year	3.10%	5.82%		1.50%	5.64%	
25							
26	Growth in Bad Debt from Prior Year	123.56%	607.97%		71.97%	-90.73%	

References:
Revenues and Bad Debt Expense in Columns (A), (B) and (C): Company Schedule E-2 -- Wastewater Division
Revenues and Bad Debt Expense in Columns (D), (E) and (F): Company Schedule E-2 -- Water Division

Note: For purposes of making its adjustment to bad debt expense, RUCO utilized the 0.0476% bad debt as a percent of revenues figure experienced by the Company's Water Division during the test year ended September 30, 2008. This figure appears in Column D, Line 18, of the chart above.

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 11a TO DEPRECIATION EXPENSE

LINE NO.	ACCT NO.	PLANT ACCOUNT	RUCO ORIGINAL COST	PROPOSED DEPR RATE	PROPOSED DEPR EXPENSE
1	351	Organization	$ -		
2	353	Land	1,783,426		
3	354	Structures & Improvements	15,051,970	3.33%	501,231
4	355	Power Generation	548,674	5.00%	27,434
5	360	Collection Sewer Forced	996,458	2.00%	19,929
6	361	Collection Sewers Gravity	21,317,631	2.00%	426,353
7	362	Special Collecting Structures	-	2.00%	-
8	363	Customer Services	-	2.00%	-
9	364	Flow Measuring Devices	46,607	10.00%	4,661
10	366	Reuse Services	3,788,219	2.00%	75,764
11	367	Reuse Meters and Installation	52,331	8.33%	4,359
12	370	Receiving Wells	860,393	3.33%	28,651
13	371	Pumping Equipment	1,573,415	12.50%	196,677
14	374	Reuse Distribution Reservoirs	62,825	2.50%	1,571
15	375	Reuse Trans. and Dist. System	340,677	2.50%	8,517
16	380	Treatment & Disposal Equip.	5,405,671	5.00%	270,284
17	381	Plant Sewers	47,608	5.00%	2,380
18	382	Outfall Sewer Lines	343,681	3.33%	11,445
19	389	Other Sewer Plant & Equip.	603,155	6.67%	40,230
20	390	Office Furniture & Equipment	198,772	6.67%	13,258
21	391	Transportation Equipment	26,078	20.00%	5,216
22	392	Stores Equipment	8,968	4.00%	359
23	393	Tools, Shop And Garage Equip	56,167	5.00%	2,808
24	394	Laboratory Equip	173,948	10.00%	17,395
25	396	Communication Equip	414,146	10.00%	41,415
26	398	Other Tangible Plant	-		-
27					-
28		**TOTALS**	**$ 53,700,820**		**$ 1,699,935**
29					
30					
31		Less Amortization of Contributions per Company C-2, Page 2			$ (374,743)
32					
33		Total Proposed Depreciation Expense Per RUCO			$ 1,325,192
34					
35		Total Proposed Depreciation Expense Per Company			$ 1,550,237
36					
37		Net Decrease to Depreciation Expense			$ (225,045)
38					
39					
40		**RUCO Adjustment To Plant Depreciation Expense**			**$ (225,045)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 11b
TO DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	REFERENCE	1999 Series Bonds (A)	2001 Series Bonds (B)	Combined Total (A) + (B)
1	Aggregate Principal Balance of IDA Bonds		$5,335,000	$7,500,000	$12,835,000
2	Allowable Debt Issuance Cost	1999 & 2001 IDA Bond Contracts	2.00%	2.00%	
3					
4	Total Allowable Debt Issuance Cost	Line 1 X Line 2	$ 106,700	$ 150,000	$ 256,700
5	Term of Bond Issue, in Years	1999 & 2001 IDA Bond Contracts	24	30	
6					
7	Annual Debt Issuance Amortization Expense	Line 4 / Line 5	$ 4,446	$ 5,000	$ 9,446
8	Cost Allocation Percentage to Wastewater Division				50.00%
9					
10		Total Amortization of Debt Discount Per RUCO			$ 4,723
11					
12		Test Year Adjusted Amortization of Debt Discount As Filed			$ 14,658
13					
14		**RUCO Adjustment To Amortization of Debt Discount**			$ (9,935)
15					
16		**TOTAL RUCO ADJUSTMENT TO DEPRECIATION EXPENSE**			**$ (9,935)**

Litchfield Park Service Company - Wastewater Division
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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 12
TO PROPERTY TAX

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
1	Calculation Of The Company's Full Cash Value:			
2				
3	Annual Operating Revenues:			
4	Year Ended 09/30/2008	Co. Sch E-2, Line 4	$ 6,383,886	
5	Year Ended 09/30/2007	Co. Sch E-2, Line 4	6,191,689	
6	Year Ended 09/30/2006	Co. Sch E-2, Line 4	5,851,080	
7	Total Three Year Operating Revenues	Sum of Lines 4, 5, & 6	$ 18,426,655	
8	Average Annual Operating Revenues	Line 7 / 3	$ 6,142,218	
9				
10	Two Times Three Year Average Operating Revenues	Line 8 X 2		$ 12,284,437
11				
12	ADD:			
13	10% of construction Work In Progress ("CWIP"):			
14	Test Year CWIP	Co. Sch E-1, Line 4	$ 393,011	
15	10% of CWIP	Line 14 X 10%		$ 39,301
16				
17	SUBTRACT:			
18	Transportation at Book Value:			
19	Original Cost of Transportation Equipment			
20	Accum. Depr. Of Transportation Equipment			
21	Book Value of Transportation Equipment	Line 19 + Line 20		$ -
22				
23	Company's Full Cash Value ("FCV")	Sum of Lines 10, 15, & 21		12,323,738
24				
25	Calculation Of The Company's Tax Liability:			
26				
27	MULTIPLY:			
28	FCV X Valuation Assessment Ratio X Property Tax Rates:			
29	Assessment Ratio (2010)	House Bill 2779	22.5000%	
30	Assessed Value	Line 23 X 29	$ 2,772,841	
31				
32	Property Tax Rates:			
33	Primary Tax Rate	JMM 1.50 - 2008 Budget	7.1250%	
34	Secondary Tax Rate	JMM 1.50 - 2008 Budget	4.0690%	
35	Estimated Tax Rate Liability	Line 33 + Line 34	11.1940%	
36				
37	Company's Total Tax Liability - Based on Full Cash Valu	Line 30 X Line 35		$ 310,392
38				
39	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1, Line 28		373,354
40	Decrease in Property Tax Expense	Line 37 - Line 39		$ (62,962)
41				
42	**TOTAL RUCO ADJUSTMENT TO PROPERTY TAXES**			**$ (62,962)**

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 13
TO INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE		(B) AMOUNT
1	**FEDERAL INCOME TAXES:**			
2				
3	Operating Income Before Taxes	Sch 4, Page 1, Col C, Lines 32 + 37	$	708,959
4	Less:			
5	Arizona State Tax	Line 21	$	(32,521)
6	Interest Expense	Note (A), Line 35		(242,238)
7	Federal Taxable Income	Line 3 + Line 5 + Line 6	$	434,200
8				
9	Federal Tax Rate	Schedule 1, Page 2		34.0000%
10	Federal Income Tax Expense	Line 7 X Line 9	$	147,628
11				
12	**STATE INCOME TAXES:**			
13				
14	Operating Income Before Taxes	Sch 4, Page 1, Col C, Lines 32 + 37	$	708,959
15	LESS:			
16	Interest Expense	Note (A), Line 35		(242,238)
17	State Taxable Income	Line 14 + Line 16	$	466,721
18				
19	State Tax Rate	Tax Rate		6.9680%
20				
21	State Income Expense	Line 17 X Line 19	$	32,521
22				
23	**TOTAL INCOME TAX EXPENSE:**			
24	Federal Income Tax Expense	Line 10	$	147,628
25	State Income Tax Expense	Line 21		32,521
26	Total Income Tax Expense Per RUCO	Line 24 + Line 25	$	180,149
27	Total Income Tax Expense Per Company	Company Sch C-1		(99,906)
28	**Total RUCO Income Tax Adjustment**	Line 26 - Line 27	**$**	**280,055**
29				
30				
31	*NOTE (A)*			
32	Interest Synchronization:			
33	Adjusted Rate Base	$ 21,248,950		
34	Weighted Avg. Cost of Debt	1.14%		
35	Synchronized Interest Expense (L33 X L34)	$ 242,238		

Litchfield Park Service Company - Wastewater Division
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Wastewater Revenue Summary and Rates

	Company Present Rates	RUCO Proposed Rates	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent	RUCO Proposed Mo. Rate	RUCO Rate Per Thousand
Revenue By Class						
Residential	$4,610,726	$ 5,636,274	$ 1,025,548	22.24%	$ 33.25	
Residential HOA 135	44,064	53,865	9,801	22.24%	33.25	
Residential HOA 160	52,224	63,840	11,616	22.24%	33.25	
Residential HOA 520	169,728	207,480	37,752	22.24%	33.25	
Subtotal	**$4,876,742**	**$ 5,961,459**	**$ 1,084,717**	22.24%		
Multi-Unit 3	$ 9,923	$ 12,128	$ 2,205	22.22%	$ 30.86	
Multi-Unit 5	3,156	3,858	702	22.23%	30.86	
Multi-Unit 6	1,818	2,222	404	22.22%	30.86	
Multi-Unit 7	8,484	10,369	1,885	22.22%	30.86	
Multi-Unit 8	75,144	91,839	16,695	22.22%	30.86	
Multi-Unit 9	2,727	3,333	606	22.22%	30.86	
Multi-Unit 14	46,662	57,029	10,367	22.22%	30.86	
Multi-Unit 16	116,352	142,203	25,851	22.22%	30.86	
Multi-Unit 17	5,151	6,295	1,144	22.22%	30.86	
Multi-Unit 18	5,454	6,666	1,212	22.22%	30.86	
Multi-Unit 24	7,272	8,888	1,616	22.22%	30.86	
Multi-Unit 46	13,938	17,035	3,097	22.22%	30.86	
Multi-Unit 84	25,452	31,107	5,655	22.22%	30.86	
Multi-Unit 90	27,270	33,329	6,059	22.22%	30.86	
Multi-Unit 132	79,992	97,764	17,772	22.22%	30.86	
Multi-Unit 304	92,112	112,577	20,465	22.22%	30.86	
Subtotal Multi-Unit	**$ 520,907**	**$ 636,642**	**$ 115,735**	22.22%		
Small Commercial	**$ 84,456**	**$ 103,238**	**$ 18,782**	22.24%	$ 56.23	
Measured Regular Domestic Service	$ 277,822	$ 354,781	$ 76,959	27.70%	$ 31.48	$ 2.61
Msrd Restrnt, Motels, Groc, Dry Clean	234,293	271,981	37,688	16.09%	31.48	3.53
Subtotal Measured Service	**$ 512,115**	**$ 626,762**	**$ 114,647**	22.39%		
Wigwam Resort - Per Room	$ 103,929	$ 127,061	$ 23,132	22.26%	$ 30.85	
Wigwam Resort - Main	12,000	14,670	2,670	22.25%	$1,222.50	
Subtotal Wigwam	**$ 115,929**	**$ 141,731**	**$ 25,802**	22.26%		
Elementary Schools	$ 32,640	$ 39,902	$ 7,262	22.25%	$ 831.30	
Middle and High Schools	28,800	35,208	6,408	22.25%	978.00	
Community College	14,880	18,191	3,311	22.25%	1,515.90	
Subtotal Educational Facilities	**$ 76,320**	**$ 93,301**	**$ 16,981**	22.25%		
Effluent @ $0.1688/thousand	$ 50,842	$ 448,604	$ 397,763	782.35%	$1.50/thou	
Effluent @ $0.6905/thousand	44,331	80,310	35,979	81.16%	$1.50/thou	
Subtotal Effluent Sales	**$ 95,173**	**$ 528,914**	**$ 433,741**	455.74%		
Total Revenue	**$6,281,642**	**$ 8,092,047**	**$ 1,810,405**	28.82%		